

CREATING CREDIBILITY: THE INTERNATIONAL MONETARY FUND AND  
THE NEOLIBERAL REVOLUTION IN THE DEVELOPING WORLD

A Dissertation

Presented to the Faculty of the Graduate School

of Cornell University

in Partial Fulfillment of the Requirements for the Degree of

Doctor of Philosophy

by

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August 2009

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# CREATING CREDIBILITY: THE INTERNATIONAL MONETARY FUND AND THE NEOLIBERAL REVOLUTION IN THE DEVELOPING WORLD

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Cornell University 2009

The International Monetary Fund (IMF) has been deeply involved in economic governance in developing countries through its conditional lending since the late 1970s. Despite the importance of the IMF in the economic and political life of its borrowers, we have, at best, an incomplete understanding of the roots of the institution's behavior. This dissertation attempts to answer some important questions about the IMF's lending activities, namely: why is there so much variation in the IMF's treatment of its borrowers? I argue that the IMF is best viewed as a purposive actor driven by a set of economic ideas. These ideas shape the way the institution's staff and management make decisions about the use of its resource in complex and unsettled political and economic circumstances. The IMF has political preference for policy teams composed of likeminded officials. I use new data to test the argument on three aspects of IMF treatment; the cross-national evidence shows that governments with a higher proportion of neoliberal policymakers receive larger loans with fewer binding conditions and are more likely to receive waivers for missed policy targets. Further, I show that the ability of top neoliberal economic officials to deliver better treatment from the IMF enables them to extend their time in office. Since the presence of the IMF confers political advantages to the policymakers that share the Fund's economic worldview, I argue that neoliberals have greater political influence in countries that have spent many years under the institution's conditional lending programs. The claims are tested using both quantitative analyses and a qualitative case study of Argentina's relationship with the IMF over a quarter century (1976-2001).

## BIOGRAPHICAL SKETCH

Stephen Craig Nelson was born on January 13, 1980 in Grand Forks, North Dakota. He was raised by his parents, Rick and Jan Nelson, along with his sister, Kelsey, in Eden Prairie, Minnesota. From 1998 to 2002 Steve attended Carleton College, where he developed an interest in politics and, specifically, political economy. At Carleton he received honors for his undergraduate thesis, written on the topic of the challenges posed by globalization to the welfare states of Norway and Sweden. In 2003 Steve began graduate studies in the Department of Government at Cornell University. In 2007 he received an MA from Cornell, and in the summer of 2009 he completed the requirements for the PhD. Steve joined the Department of Political Science at Northwestern University as an assistant professor in September 2009.

For Kate, who makes me smile

## ACKNOWLEDGMENTS

Six years have passed between the day I drove into Ithaca and today, which I spend typing on an aged laptop in an apartment in Chicago. So many individuals have provided intellectual, emotional, and financial support in that period that it is impossible to demonstrate the depth of my gratitude to each. This is intended to express in some small way my thanks to those who gave valuable time and energy on my behalf.

I first became interested in studying politics as a vocation as an undergraduate at Carleton College in Northfield, Minnesota. At Carleton, Al Montero and Norman Vig deserve thanks for pushing me to pursue further studies in the field and for continuing to take an interest in my progress.

I had the very good fortune of finding my way to Cornell's Government Department for graduate school. There I joined an unmatched intellectual environment: tough-minded but fair, demanding but also tolerant of the flights of fancy to which aspiring academics are prone. I thank the members of my dissertation committee for their help in shepherding this project from a vague idea about how the IMF works to a final draft. Peter Katzenstein, who was the chair of the committee, meets and, in fact, exceeds his justifiably legendary reputation. As a teacher, scholar, and opponent on the squash court, Peter sets an incredibly high standard to which his students can only hope to aspire. He knew when to push me to tighten the arguments in the dissertation and when to let me grapple with difficult issues. Writing a dissertation is exhausting, and there were times when I thought the sheer scale of the task might consume me. I always left conversations with Peter with a renewed sense of purpose, knowing that I hadn't quite figured things out but that I was onto something.

Christopher Way is among the most clear-thinking and rigorous scholars that I

have met and I have him to thank for many hours of useful discussion and many, many pages of insightful comments. Chris pointed me in productive directions and steered me away from more than a few dead-ends in the process of researching and writing this dissertation.

The other members of my committee, Jonathan Kirshner and Nicolas van de Walle, played very important roles in shaping this project and, more broadly, my thinking about the way the world works. Jonathan's ability to cut to the core of an argument helped me see what this dissertation was really about, and his exceptionally clear prose was a model for me. Nic always made time to comment on last-minute drafts and to meet when I was in Ithaca; he does not agree with some of what I have written here, but the final product is much better for his skeptical and incisive comments. Tom Pepinsky joined as an outside reader and asked the kinds of questions that give graduate students nightmares. The final draft is much improved thanks to Tom's close reading.

I thank the many participants who offered trenchant criticism and helpful suggestions on this project during visits to Boston College, Dartmouth College, the Ford School of Public Policy at the University of Michigan, Georgetown University, Harvard Business School, the Institute for the Social Sciences, the New School for Social Research, and Northwestern University. Mark Blyth, Steve Brooks, Kate McNamara, and Andrew Yeo also offered very helpful comments on aspects of the project.

The research and writing was done in Washington, DC. I am grateful to Thomas Banchoff for sponsoring me during my time as a visitor to Georgetown University and to Marc Busch for allowing me to join his political economy discussion group. This project would not have been completed without the patient help of the IMF's archivists, particularly Premela Isaac. Many present and former IMF

officials and outside observers in Washington spent time explaining the institution's activities to me: Paul Blustein, James Boughton, Christian Brachet, Desmond Lachman, and a number of Executive Directors deserve thanks for their willingness to engage with me about the Fund.

Support for portions of this research from the Einaudi Center for International Studies at Cornell University is gratefully acknowledged.

Many friends at Cornell provided close readings, good conversation, and pep talks. I thank Julie Ajinkya, Ameya Balsekar, Jaimie Bleck, Ben Brake, Jennifer Erickson, Jai Kwan Jung, Tariq Thachil, and Andrew Yeo for each, in their own way, helping make the dissertation writing process more rewarding and, occasionally, fun.

Completing this project has been a team effort. My family was always supportive and helped me see that the long days and nights of coding IMF agreements and the background of policymakers was worth it. My in-laws, Gregg and Betsey, provided a place in Maine to escape to during the hot Washington summers. My grandfather, Alton Waage, helped make the PhD possible through his support for me during my time at Carleton. I will always be indebted to him; think of this as one way of paying him back. My parents, Rick and Jan, were there for me through thick and thin with an encouraging word and a sympathetic ear. They have supported me with love from grade 1 to grade 22. I thank my sister, Kelsey, for reminding me that there is more to life than political science.

I am not sure how to begin to thank my beautiful wife, Kate. She was there every step of the way. Kate has an unusual combination of attributes: seemingly endless patience, tireless work ethic, a sharp and inquisitive mind, and a wacky sense of humor. I love her very much, and I am lucky to have her on my side.



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## Chapter One

### Introduction, Research Puzzle, and Overview

As the Argentine economy collapsed in December 2001, Porteños (the nickname given to the residents of Buenos Aires) found ways in the midst of impending financial chaos to maintain their characteristic sense of gallows humor. Holiday shoppers could find a local knock-off of the “Monopoly” board game called *Deuda Eterna* (“Eternal Debt”) on stores’ shelves. In *Deuda Eterna*, players obtain capital and must maneuver around the board while avoiding a number of pitfalls: military coups, capital flight, protectionism in rich Northern countries, and, worst of all, International Monetary Fund (IMF) conditionality. The goal for the players of the game is simple: “overcome the disadvantages and dispense with the IMF!”<sup>1</sup>

The existence of a popular anti-IMF board game is a testament to the powerful impact of the Fund’s activities on the daily lives of citizens in low- and middle-income countries. The IMF’s influence is derived from the mix of carrots (the size of the loans it can arrange and its ability to act as a seal of approval for private financial investors) and sticks (the conditions attached to loans and punishments for noncompliance with binding conditions) that it employs to reorient the economic policies of its borrowers.

The IMF plays multiple roles in the world economy. Through its research department, data dissemination efforts, and Article IV consultations (widely known as “surveillance”), the institution monitors and advises its members on good macroeconomic practices. The IMF sometimes functions as a coordinating venue in which policymakers meet to hash out plans to manage systemic threats to the international financial system. The Fund’s main lever of influence – and the focus of this dissertation – is conditional lending. For countries suffering from balance of

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<sup>1</sup> Mary Anastasia O’Grady, “Play ‘Deuda Eterna’ and Learn all about the IMF,” *Wall Street Journal*, December 21, 2001, pg. 15.

payments problems, financial crises, or other macroeconomic disturbances, the IMF's resources provide an economic lifeline. Governments that might otherwise be forced to pay very high rates of interest to borrow on private markets find Fund resources attractive, since the IMF charges at below-market rates.

But borrowing from the IMF has other costs. For the Fund's economists, the economic problems that drive governments to seek its resources usually require some tough medicine. The conditions attached to IMF loans typically involve cutting social spending, reducing subsidies for industrialists, trimming the government's payroll, and devaluing the currency. Often ordinary citizens in the country in which the stabilization program is being implemented do not want their government to take the Fund's medicine. This tension can generate explosive political dynamics, as evinced by violent IMF-linked riots in Morocco, Jordan, Peru in the 1980s and perhaps most notoriously, in Indonesia in May 1998.

The resources that the IMF marshals are substantial: at the apex of its lending activities in 2003, the institution had outstanding loans worth nearly \$71 billion in over 60 countries. With the possible exception of the World Bank, no other international institution can match the influence of the IMF on the daily lives of citizens in the developing world.<sup>2</sup> The conditions that are included in lending arrangements have made the IMF a deeply controversial institution.<sup>3</sup> The collection of

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<sup>2</sup> In 2006, 49 developing countries – the populations of which, in total, exceeded one billion people – participated in IMF programs (see Vreeland 2007: 1). IMF lending slackened in recent years, prompting some observers to question the institution's relevance in light of massive capital flows and the large amounts of reserves accumulated by many low and middle income countries. Since September 2008, the benign global economic situation has reversed, and the Fund is once again providing financial support to a number of countries (including Hungary, Mexico, Pakistan, Poland, Turkey, and Ukraine). Between the late 1970s, when the IMF signed agreements with the UK and Italy, and 2008, when the financial crisis forced Iceland to turn to the Fund, none of the wealthy democracies associated with the OECD sought IMF support; for this reason the discussion of IMF lending behavior that follows is limited to institution's activities in the developing world. Prior to the April 2009 G20 meeting the IMF's deployable financial resources amounted to just above \$250 billion; as of writing, the institution's resources have tripled thanks to new contributions led by Japan, the U.S., and the EU.

<sup>3</sup> For example, during the international financial institutions' spring 2000 meetings, protesters unveiled a poster reading "IMF Plus World Bank Equals Hundreds Rich, Billions Poor" (Mallaby, 2004: 265). In

scholars and policymakers that created the IMF at the conclusion of the Second World War did not anticipate that their institution would generate much political controversy. The general perception at the time of founding was that the institution would be insulated from social and political pressures; in John Maynard Keynes's view "the Monetary Fund, in particular, has the great advantage that to the average Congressman it is extremely boring."<sup>4</sup>

The IMF that Keynes helped design had a simple mandate: it would provide short-term liquidity for needy member countries. The institution was not intended to intervene in the economic policymaking process in borrowing countries. The Fund we observe today is radically different from Keynes' brainchild. It has been deeply involved in economic governance in developing countries since the late 1970s. The extent of the Fund's influence on the economies – and by extension, the politics – of borrowers has led to vigorous debate about the effects of the institution's policies and its role in the global economic system. Unfortunately, the debate about the IMF's role in the world generates more heat than light. We have, at best, an incomplete understanding of the roots of the institution's behavior.

The basic premise of this dissertation is that the economic ideas that shape the Fund's purpose have an important effect on the ways in which the institution interacts with the governments that draw on its resources. My perspective differs from conventional approaches in important ways. Realists tend to treat the Fund as an institution beholden to the strategic interests of its most powerful members. Scholars writing from the public choice tradition focus on self-interested rent-seeking behavior

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the view of critics, the Fund, rather than ensuring global economic stability and helping to integrate countries into the world economy, reinforces patterns of unequal (and unfair) economic relations. The radical critique of the Fund is not new. In 1974, Cheryl Payer wrote that since its inception "the IMF has been the chosen instrument for imposing imperialist financial discipline upon poor countries under a façade of multilateralism and technical competence" (Payer, 1974: x).

<sup>4</sup> Mikesell 1994: 445 (quote).

by individual staff members, arguing that the IMF is subject to the kinds of bureaucratic pathologies that characterize all large organizations. Many economists, on the other hand, regard the IMF as an apolitical institution that applies a range of prescriptions based on economic fundamentals.

### **The Research Puzzles**

None of the conventional approaches can fully explain the most interesting question about the IMF's lending activities: why is there so much variation in the Fund's treatment of its borrowers?

This question presumes that there is in fact wide variation in the terms of individual IMF loans, a contention that is resisted by some well-known observers. For example, Joseph Stiglitz argues that by the early 1980s the IMF and the World Bank had both become single-mindedly devoted to market liberalism, applying excessively harsh conditions that depressed the economies of developing countries and unwisely opened domestic markets to the vagaries of international competition. In Stiglitz's view, the IMF applies a "cookie cutter" approach to stabilization and reform, inflexibly imposing a rigid set of fiscal, monetary, and structural conditions on borrowers with scant attention to particularities of different cases.<sup>5</sup> W. Max Corden and Martin Feldstein presented less caustic critiques of the IMF in the wake of the financial crises of the late 1990s, but also suggested that Fund programs invariably targeted structural areas of borrowers' economies, even when there were important differences in the organization of the borrowers' economic systems.<sup>6</sup> In some countries, enforcing structural changes made sense, but in others the Fund's strategy

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<sup>5</sup> Stiglitz's criticism of the IMF is wide-ranging, but he focuses particular attention on the institution's inattention to country-specific conditions. For example, he describes the practice of using interchangeable material in country reports; for evidence, he cites the (possibly apocryphal) case of a country report that was delivered with the name of the previous country (from which much of the report was taken) left in. See Stiglitz 2003: 47.

<sup>6</sup> Corden, 2001; Feldstein 1998.



was inappropriate. These critics look at the Fund and see an inflexible institution that fails to appreciate the variety of economic and political conditions in the low- and middle-income countries that form the institution's clientele.

Yet the IMF is simultaneously accused of inconsistent treatment of borrowers. The view has a lengthy pedigree. Donald T. Regan, the first Treasury Secretary in the Reagan administration, told reporters in 1981 that "the IMF could be a little more strict with some of the larger developing countries and some of the more prominent less-developed countries." Regan indicated in his comments that the US would take a more active interest in the Fund's activities: "our representatives will be watching their lending policies, and insisting upon more strict fiscal policies and more strict monetary policies within the countries themselves, as conditions for the loans."<sup>7</sup> Twenty years later the Meltzer Commission's report to the US Congress argued that the proliferation of unwieldy and inconsistently applied targets rendered conditional lending ineffective. It suggested that the IMF should get out of the business of long-term lending altogether.

The first step in solving the puzzle is to explore the extent of variation in IMF conditionality. For many years scholars could not gain access to the documents that contained the terms of IMF agreements.<sup>8</sup> Quantitative studies of IMF lending, consequently, treated the programs as constant across countries and over time. Qualitative work on the Fund had to infer the content of conditions from leaked documents and news reports.<sup>9</sup> I take advantage of the IMF's opening of its archives to

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<sup>7</sup> Hobart Rowen, "World Bank, IMF: Santas Or Scrooges?" *Washington Post*, September 27, 1981, H1.

<sup>8</sup> The IMF's secrecy has long been recognized as an impediment for researchers interested in aspects of program design. Richard Eckaus noted that "there is little first-hand official information or quantitative data by which to judge the detailed implications of the terms of the IMF conditionality" (1982: 768). Jeffrey Sachs complained in 1994 that "the IMF's performance has not been properly scrutinized" because "all IMF operational documents, including IMF advice as well as the terms of the loan agreements, are treated as confidential in perpetuity" (1994: 523).

<sup>9</sup> The majority of statistical research uses a dichotomous variable to measure IMF influence; see, for example, Vreeland, 2003. See Kahler, 1992 and Stiles 1990, 1991 for informal attempts to measure the toughness of conditionality.

external researchers to measure variation in the terms of a large number of IMF lending arrangements. I focus on the three main instruments of IMF policy: the size of the loans given by the institution, the extent of the conditions included in lending agreements, and the waivers that the Fund applies to borrowers that fail to meet performance criteria. I can answer the first puzzle here in the introductory chapter: there is indeed a wide range of variation in the IMF's treatment of countries.<sup>10</sup> The evidence to support the claim is presented in the next chapter.

The fact that there is so much variation suggests the second puzzle, which is central to the dissertation. This puzzle concerns the *sources* of variation in the IMF's treatment of its members. Why, for example, did Panama receive a large loan (222 percent of its quota) with nine binding conditions in 1983, while four months prior Argentina accepted a smaller loan (187 percent of quota) with thirteen binding conditions? Does objective economic need explain why the size of IMF loans ranges from 15 percent of the member's quota (Bulgaria's 1994 loan, for example) to 1,300 percent of quota (Turkey's massive 1999 program)? I argue below that the existing explanations we have to explain this puzzle are unsatisfying both analytically and empirically. I develop an alternative theoretical framework to help explain why the IMF systematically favors certain borrowing governments over others. The evidence suggests that the IMF discriminates in favor of governments with neoliberal economic policymakers; the theory involves a mechanism that explains why this should be the case.

A third question that I take on in the dissertation concerns the effects of IMF programs on the political survival of top economic officials in borrowing countries. There is a massive literature on the impact of the Fund on economic outcomes in

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<sup>10</sup> Previous research has also demonstrated significant variation across countries and over time in IMF programs. See Edwards, 2002; Gould, 2003, 2006; Killick 1995; Killick and Malik, 1992; Stiles 1990, 1991; Steinwand and Stone, 2008; Stone, 2002, 2004, 2008; Williamson, 1983: 358.

borrowing countries. Much of the sophisticated empirical research on the effects of conditional lending portrays the IMF as an ineffectual or even malignant institution: IMF programs are shown to lower GDP growth<sup>11</sup>, raise income inequality<sup>12</sup>, have minimal effects on inflation and fiscal and monetary targets<sup>13</sup>, and actually drive foreign investors away.<sup>14</sup>

Research on the consequences of IMF programs for political processes in borrowing countries is by comparison underdeveloped. The theoretical framework I develop suggests an interesting observable implication: if the Fund favors certain types of policymakers, these agents have political advantages. This dissertation supplies a mechanism that links the presence of the IMF to the durability of neoliberal policymakers. The mechanism implies that the IMF has been an engine driving the diffusion of neoliberal economic ideas throughout the developing world in the past three decades.

### **The Argument in Brief: How Ideas Shape the Institution's Behavior**

The argument emerges from a set of observations about the environment in which the Fund operates. Unlike sovereign states in the international system, the IMF does not face strong competitive pressures; unlike private banks, the IMF does not face a serious risk that its borrowers will default on the loans. More directly, I argue that structural constraints do not select a set of optimal policies for the Fund. We cannot assume that the IMF's interests are derived from the dynamics of the world economy and the constellation of state interests therein. Rather, the IMF is best viewed as a purposive actor in world politics that relies on a set of economic ideas to manage

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<sup>11</sup> Barro and Lee, 2005; Butkiewicz and Yanikkaya, 2004; Dreher, 2006; Przeworski and Vreeland, 2000; Vreeland, 2003.

<sup>12</sup> Pastor, 1987, Garuda, 2000, and Vreeland, 2001; 2003

<sup>13</sup> Bird, 2001; Conway, 1994; Hutchison and Noy, 2003

<sup>14</sup> Jensen 2004. The question of whether IMF programs have any catalytic effect on private finance is explored in Bird and Rowlands, 2001a; Rowlands, 2001

uncertainty.

What kinds of ideas shape the worldview of the IMF's staff members and top management? The IMF is dominated by economists who share a set of neoliberal economic ideas. In the next chapter I provide a tractable definition of neoliberalism. The set of economic ideas that I refer to as "neoliberal" throughout the dissertation were crystallized in top American economics departments. The data demonstrate that the majority of upper level IMF officials were trained in American economics departments. The neoliberal ideas held by these officials help shape the institution's self-defined purpose.

The second step of the argument involves showing how the IMF's neoliberal purpose actually influences the way in which the institution deals with its borrowers. I argue that the ability of the institution's staff and management to calculate the prospects for the success of programs is limited, due in large part to the complexity of the political processes that shape economic policymaking. The IMF has to place bets based on its beliefs about the relative risk of the political and economic environment prevailing in the borrowing country. The Fund's decision making process reflects, in part, the institution's political preferences: it uses the tools at its disposal to support governments for which it has an affinity. In difficult (and frequently opaque) circumstances the IMF fixates on the presence (or absence) of likeminded policymakers; when fellow neoliberals are in charge of policymaking in a borrowing country, the Fund is more likely to trust the policy team and, consequently, will provide relatively generous loans with lenient conditions and is more likely to issue waivers for noncompliance with binding conditions.

The IMF's pattern of systematic discrimination in favor of certain types of policymakers has political consequences at the domestic level. The second major component of my argument in the dissertation focuses on the political survival of top

economic officials – namely, finance ministers and central bank governors – in low- and middle-income countries. Because neoliberal economic policymakers are able to extract better terms in the loans they negotiate with the IMF, neoliberals in governments that draw on IMF resources become particularly valuable to the political masters that determine their fate. The costs of removing an economic official increases when that individual can credibly promise to deliver tangible benefits to the leader in the form of better relations with the IMF. Top neoliberal economic officials can appeal to the fact that the IMF regards them as more credible agents of reform to bolster their position, thus lengthening their time in office. Since the presence of the IMF confers political advantages to the policymakers that share the Fund’s economic worldview, I argue that neoliberals have greater political influence in countries that have spent many years under the institution’s conditional lending programs.

### **Testing the Arguments**

All research strategies involve tradeoffs. In my view, the issue is not whether quantitative strategies are superior to qualitative research designs, or vice versa. The question of hierarchy of strategies is misplaced; increasingly, political scientists steeped in research methodology are arriving at the conclusion that both styles of analysis can be fruitfully combined in a single logic of inquiry.<sup>15</sup> I make use of both quantitative data analysis and qualitative process tracing in the dissertation.

The methodological strategy reflects my view that mechanisms are only tested through their observable implications. There is no reason to *a priori* limit the number of observed implications of a proposed causal mechanism by fixating on a single methodological tool. James Mahoney defines a mechanism as the “unobserved entity

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<sup>15</sup> Brady and Collier (2004) suggest that there is an emerging consensus on shared research standards which does not force social scientists to choose between methods of inquiry. Individual contributions in their edited volume take on the question of how quantitative and qualitative evidence can be accommodated in a single research design more directly.

that – when activated – generates an outcome of interest.”<sup>16</sup> A mechanism is the process that lies between a set of theoretical propositions and the outcome of interest. We can indirectly observe the mechanism that links the IMF’s decision making process to the presence of neoliberal economic policymakers through correlations observed in large-N datasets (do borrowing governments with likeminded policymakers receive larger loans with fewer conditions?) and causal process information contained in interviews and archival materials (for, do IMF economists indicate that they prefer to work with governments consisting of likeminded economic officials?). The goal of the mixed-method strategy adopted in the dissertation is to increase analytical leverage by gathering lots of evidence at different levels of aggregation. If the evidence conforms to the observable implications from the proposed mechanism, then we can be reasonably confident in the explanation.<sup>17</sup>

The first tests of the argument rely on quantitative tools and make use of new data on IMF treatment and economic policymakers. In order to measure three main aspects of treatment of borrowers, I collected documents from the IMF’s archives that specify the size, phasing of disbursements, and conditions for nearly every high-conditionality agreement signed by the IMF and a borrower between 1980 and 2000.<sup>18</sup> The conditionality dataset I use in the quantitative analysis consists of 503 separate

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<sup>16</sup> Mahoney 2001: 580. There is a voluminous literature on causal mechanisms in the social sciences (and a wide range of definitions) which Mahoney usefully surveys.

<sup>17</sup> My position is strongly influenced by Brady, Collier, and Seawright 2004: 10-14. I make probabilistic claims in the dissertation: for example, I argue that, on average, the IMF gives more generous loans with fewer conditions to borrowing governments with neoliberal economic officials. In contrast to political scientists who take a deterministic view of causation, I am not proposing that my claim represents a total explanation for IMF treatment in one or a few cases. There is room for the explanatory factor that I identify (shared economic ideas) to operate alongside other factors (such as the strategic importance of the borrower to the United States, etc). My main contribution is suggesting that the analytical foundations upon which many of the existing explanations were built are flawed, which has led analysts to ignore an important explanatory factor.

<sup>18</sup> When agreement is reached officials produce two documents (the letter of intent and memorandum of understanding) that are submitted to the Executive Board for approval. These documents outline the terms of the agreement. These documents were confidential until very recently. A handful of agreements have not been released to the archives by the country’s officials in the IMF.

agreements signed by the IMF and a borrower in the two decade window.<sup>19</sup> The data allow me to create indicators for the first two aspects of IMF treatment: I measure IMF generosity as the size of the loan (as a percentage of the country's quota) and the extent of conditionality by counting the number of binding conditions in each agreement.<sup>20</sup> I also develop a measure of the IMF's treatment of countries that fail to comply with conditions. I obtained a record of every decision by the Executive Board to issue a waiver for noncompliance between 1980 and 1997 from the IMF archives.<sup>21</sup> Countries that receive waivers for noncompliance (allowing them to continue to draw on Fund resources) experience better treatment compared to countries that have programs suspended.

To test the central arguments in the dissertation I created a dataset that covers the precise dates of entry into and exit from office for over 2,000 key economic policymakers in 90 developing countries observed between 1980 and 2000.<sup>22</sup> My

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<sup>19</sup> Mine is not the first attempt to code IMF agreements, but it is the most extensive dataset. Gould (2003, 2006), for example, examines the number of conditions in a sample of 249 agreements from 20 countries between 1952 and 1995; Copelovitch (2004) only considers short-term Standby Agreements from 47 countries between 1984 and 2003; Dreher and Jensen (2007) code 206 agreements between 1997 and 2003 that were posted on the IMF's website; Kang (2007) infers the number conditions from agreements described in the *IMF Survey* (1983-1997); Stone (2008) gained access to a confidential IMF database on the scope of IMF conditionality in agreements between 1992 and 2002. In chapter 3 I explain the logic of choosing 1980 as the start date for the analysis.

<sup>20</sup> IMF agreements contain a number of elements, including "indicative" (nonbinding) targets, prior actions (reforms that policymakers should initiate prior to the first disbursement), phasing of disbursements, and a schedule of program reviews. These additional elements may be controversial items in negotiations, but are relatively toothless since violation does not put the survival of the program into question. I focus in the dissertation on *binding conditions*, which, if violated, can trigger the suspension of the program. Binding conditions can include a range of different policy areas, including fiscal and monetary policy and "structural" conditions related to economic liberalization (dismantling of tariffs, reduction of subsidies, privatization of state-owned enterprises, etc). I draw on the 52 policy areas identified in Gould's (2006) conditionality dataset to categorize each of the binding conditions in an agreement.

<sup>21</sup> There is a 10 year moving wall for Executive Board decisions (as opposed to the five year wall for documents related to IMF agreements).

<sup>22</sup> The policymakers included for each country are the executive (as identified by Goemans et al 2008), finance minister (in some countries referred to as economy minister), and head of the central bank. For some countries I also gather information on additional policymakers (planning ministers, for example) that are important actors in the negotiating and economic policymaking process. I identify the important economic policymakers by noting the name and position for each of the signatories of a country's IMF agreements. Details on the development of the dataset are found in chapter 3.

argument depends on the ability to distinguish neoliberal policymakers that share causal beliefs with the Fund's staff and management. Since it is not possible to survey the thousands of policymakers that comprise the dataset for their ideological self-placement, I rely on background information that indicates the policymaker has internalized neoliberal ideas. A number of scholars suggest that professional training in American economics departments imparts a set of normative beliefs about economic policy that resonates with the similarly-trained staff of the IMF.<sup>23</sup> Similarly, Checkel (2005) and Nelson (1990) argue that international institutions are sites of socialization for individuals, specifically when individuals have sustained and repeated contact with officials from the institution. Consequently, I identify the educational background and professional experience for each policymaker in the dataset. I code policymakers that have received a master's degree or above from a highly ranked American economics department and/or have significant work experience with the IMF or the World Bank as "neoliberal."<sup>24</sup>

The large-N analysis provides some evidence in favor of my explanation. This type of evidence has the advantages of demonstrating the average effect of my variable of interest over a large number of programs and countries over a two decade period and the relative strength of the effect compared to a number of indicators for other plausible explanations. I find that governments with a higher proportion of neoliberal economic policymakers benefit from better treatment by the IMF.

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<sup>23</sup> For example, Babb 2001; Chwioroth 2007a; Kogut and MacPherson 2008; Klammer and Colander 1993.

<sup>24</sup> The next chapter provides a definition of "neoliberal," which is a controversial term in political science. I rely on a number of different resources to gather information about economic policymakers, including direct contacts with government ministries and central banks, the CIA's *Chiefs of State and Cabinet Members of Foreign Governments*, *The Statesman's Yearbook*, digital archives of the *Financial Times* and *New York Times*, *BBC Summary of World Broadcasts*, *Who's Who in the World*, *International Who's Who*, Proquest's *Digital Dissertations* database, Gale's *Biography Resource Center* database, *Who's Who in International Organizations*, and country-specific secondary sources. Given the heterogeneity of sources, I cross-check the background for each policymaker against multiple sources to confirm that the information is correct. Again, more detail on the construction of these data is given in chapters 3 and 4.



I also use quantitative techniques to examine the covariates of political survival of top policymakers in developing countries. I construct a set of event history models to test, using the data on several thousand economic policymakers in 90 countries, whether neoliberal economic officials in borrowing countries survive in office longer than non-neoliberal officials. The survival models, in tandem with the models of variation in treatment, enable me to provide evidence about how much neoliberal ideas matter compared to other possible explanations.

I draw on a detailed case study of the Argentina-IMF relationship over a quarter century (1976-2001) for more fine-grained evidence of the causal mechanisms. Argentina is an important case because it experiences variation in both the dependent variable (treatment by the IMF) and independent variable (the ideological consonance of policymakers and IMF officials) over time. Rather than a single observation, the case turns into multiple observations because of the country's repeated experiences under IMF programs.<sup>25</sup> Because the case generates multiple observations, I can maximize causal leverage while avoiding the pitfall of making the implausible claim that two countries are similar in every way except for the variable or outcome of interest. I use several different methods to reconstruct the IMF's relationship with Argentina in order to highlight the centrality of shared and competing ideas about economic policy: archival research<sup>26</sup>, interviews with IMF and Argentine officials involved in the negotiations, and close reading of the secondary literature and news reports.

Causal mechanisms, to the extent that they capture the chain that links a variable (or set of variables) to an outcome of interest, generate evidence at multiple

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<sup>25</sup> Argentina had 14 separate programs in the years between 1976 and 2001.

<sup>26</sup> The IMF has a twenty year moving window for documents from staff missions and internal memos related to Fund-borrower relations, unfortunately. Nonetheless, the amount of archival material on Argentina is massive – 30 boxes from the Central Files collection and 14 boxes from the Western Hemisphere Department's country files.

levels: we should observe correlations between variables in a large sample; in addition, we should see evidence produced by the causal process that does not fit into an  $N \times K$  dataset. If the explanation is important, there must be some evidence that IMF officials actually care about the degree of shared economic ideas in the borrowing country; evidence of this type can be found in interviews and archival documents.

The Argentina case study, then, provides two distinct types of evidence in the dissertation. In the same way that there should be an observed correlation between the key explanatory variable and IMF treatment in quantitative tests, IMF's treatment of Argentina should be better when the country's top economic policymaking positions are occupied by neoliberals. If I observe that neoliberals received tough treatment by the Fund, it forces me to ask whether the explanation needs to be refined. If the facts of the case broadly fit the explanation, it increases our confidence that the key explanatory variable is not a trivial cause. And if the mechanism operates in the Argentine setting, we should observe references in IMF archival documents to the staff and management's trust in likeminded officials, or discussion among IMF officials of uncertainties that they faced in designing IMF programs for various Argentine governments.

It is important to note, however, that there should be a unified logic of inquiry in multi-method research. A research design that includes quantitative tests implies that relationships between variables are probabilistic. If I thought that the variable measuring the degree of neoliberal influence explained 100 percent of variation in IMF treatment, there would be no reason to include the kinds of quantitative tests that I use as evidence in chapters 3 and 4 of the dissertation. It would be unfair, then, to hold the case study to deterministic standards of explanation. The large-N data analysis merely suggests that there is an important relationship between the presence of neoliberal policymakers and the IMF's treatment of borrowing countries. Along

with my explanation, other factors should also influence aspects of the Fund's relationship with Argentina. What the case study should do is to show that the explanation that focuses on shared economic ideas is a non-trivial cause. I do not (and cannot) show that it is the *sole* cause of variation in the IMF's treatment of Argentina over time; rather, the case-level evidence is used to make the case that it is an *important* cause of variation.

### **Roadmap of the Dissertation**

The dissertation is organized as follows. The second chapter situates my explanation of the IMF's lending behavior in the context of its alternatives. I start with an overview of the conventional analytical models of the IMF before explaining why an ideational approach to the IMF is built on better theoretical foundations than the alternatives. I then lay out my argument in two stages; the first step shows how neoliberal economists have come to shape the IMF's purpose, and the second explains how this shapes the Fund's decision making. The Fund's staff and management have to make bets about the prospects that the institution's purpose will be served in various contexts; they are more likely to trust policymakers that share a core set of economic ideas, and will adjust their treatment accordingly.

In chapter 3 I test the explanations of the treatment of borrowers on a new source of data consisting of nearly IMF every agreement signed between 1980 and 2000. In a set of statistical tests that include variables for many other plausible explanations of IMF behavior, an indicator of the proportion of neoliberals in government is strongly related to variation in IMF treatment: when dealing with governments with likeminded policymakers, the IMF is more likely to (1) give larger loans, (2) apply less onerous conditionality to the terms of loans, and (3) issue waivers for borrowers that miss binding targets.

In the fourth chapter I turn to the domestic political effects of IMF programs.

One of the observable implications from the theory developed in chapter 2 is that neoliberal policymakers should have political advantages in countries under IMF programs. The chapter makes use of the data on the entry and exit dates and biographical information on economic policymakers in 90 developing countries to test the argument that the political survival of neoliberal officials is extended by IMF programs. I develop a mechanism that links political survival to the costs that leaders pay when they choose to replace a top official; the presence of the IMF raises the costs of removing a neoliberal official who can credibly promise to deliver better relations with the Fund. I use the findings from a set of survival models to speculate on the role that the IMF has played in the spread of neoliberal economic ideas throughout the developing world. A straightforward test reveals that neoliberals have more influence over policymaking in countries that spent significant time under IMF programs.

I transition to a detailed case study of Argentina in chapter 5. I ask whether the facts of the many IMF programs signed by Argentina conform to the predictions generated by my theoretical framework. The chapter is organized around four distinct periods in recent Argentina history. In the first two episodes, the influence of neoliberal economists on Argentine policymaking was high (1976-81 and 1991-2001). In the other periods, the influence of sympathetic interlocutors varied: neoliberals were excluded from the policymaking process in favor of a set of policymakers that were skeptical of Fund's ideas (1981-85); later, neoliberals returned to positions of influence in Argentina but were constrained in ways that differentiate the period from the first two episodes (1985-89). The logic of the chapter is comparative: I compare the Fund's relationship with the Argentines across each of the four periods. Where possible I look for evidence from IMF negotiations with the Argentine government to indicate that the economic ideas held by top economic officials mattered to Fund economists.

The concluding chapter summarizes the argument and findings in the dissertation and discusses the implications of the research for ideational work in International Political Economy. I take some space in the conclusion to address possible alternative interpretations of the evidence presented in the empirical sections. The final section of chapter 6 reflects on how the findings relate to the ongoing debate about the future role of the IMF in the world economy. The IMF faces a legitimacy problem at a time when its resources are in strong demand. Proposals to reform the institution focus on two areas: (1) expanding the resources that it can marshal in the event of systemic crises and (2) redistributing the voting weight accorded to the country representatives on the Executive Board. That the Fund's governance structure fails to reflect the true distribution of economic power in the international system is undeniable; however, this study implies that real change in the institution will occur when there is a shift in the underlying ideas held by the staff and management. Policymakers in developing countries recognize the need for a circulation of new ideas within the institution. South Africa's long-serving finance minister, Trevor Manuel, recently expressed frustration with the Fund's intellectual rigidity: "[There is] a sense of sameness about the people. They are all very smart. They go to the same Ivy League Universities and get their PhDs. It is not innovative."<sup>27</sup> The global economic crisis has opened a space for reform of the Bretton Woods institutions. The evidence marshaled in the dissertation implies that lasting change depends on a reorientation of the IMF's purpose – and this hinges on a shift in the economic beliefs held by top management and staff.

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<sup>27</sup> Quoted in Quentin Peel, "Political will for meaningful reform of IMF is still lacking," *Financial Times*, March 17, 2009: pg. 2.

## Chapter Two

### Theoretical Frameworks for Understanding the IMF

In this chapter I review the various explanations for the lending activities of the IMF and present a new theoretical framework. Conventional explanatory frameworks can be placed in two categories: (1) explanations that highlight factors located within the institution (bureaucratic incentives and institutional culture, for example); (2) explanations that focus on external influences (the geopolitical interests of powerful states and strategic behavior of borrowers in the international system, or the interests of private financiers). A smaller branch of research on the IMF identifies important causal factors in the interaction between domestic political conditions in the borrowing countries and the interests of the institution.

All explanations of political phenomena rest on an underlying set of claims about how agents – whether states, institutions, or individuals – perceive the world and their place within it. Much of the empirical research on the IMF relies on implicit models of the interests of the institution, its staff members, and its borrowers; for example, IMF officials are assumed to maximize budgets, or are assumed to respond to the strategic interests – which are both obvious and communicable – of the institution’s powerful principals. The fuzzy connections between the underlying theoretical framework and the empirical results in many studies of the IMF are problematic.<sup>1</sup> I try to make the models animating different explanations explicit, and I provide a justification for a reexamination of the behavioral foundations upon which most of the research on the Fund rests.

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<sup>1</sup> Thomas Willett makes a similar argument with regard to narrow public choice analyses of the IMF. He argues that “a disinterested look at the evidence shows that most of these specific theories have some explanatory power, and that none of them have complete explanatory power. The scholarly community needs to begin to think more systematically about the problem” (2002: 65). Recent work by Stone (2002), Vreeland (2003), and Barnett and Finnemore (2004) are exceptions: each make the assumptions underlying the framework they use to explain the Fund’s behavior explicit (in the cases of Stone and Vreeland, the assumptions are formalized).

This theoretical framework proposed in this chapter diverges from the conventional approaches to the IMF's lending activities in important ways. Because there is a well developed theoretical literature that focuses exclusively on the Fund, the first part of the chapter reviews the existing explanations in some detail. The remaining sections focus on my own analytical framework that I use to explain the IMF's treatment of borrowing countries. The argument consists of two steps. In the first step I explore the IMF's self-defined purpose. Rather than viewing the Fund as an institution beholden to the whims of its most powerful member states, I contend that the structural constraints on the Fund are much looser than typically portrayed by international relations specialists. Further, I argue that the IMF's staff members and top management rely on a set of neoliberal economic ideas to guide the institution.

The second step of the argument links the ideational purpose of the Fund to variation in the institution's treatment of its borrowers. The dilemma face by the Fund's staff and management is that the prospects for the success of a lending program depends not only on the correct diagnosis of the macroeconomic and structural problems which drove the borrower to seek Fund resources, but also on unpredictable, complex, and opaque political dynamics which can drive programs off course. The central contention of this part of the dissertation is that ideas have a powerful effect on how the IMF navigates the politics of conditional lending: *the Fund has greater trust in policymakers who share neoliberal economic beliefs*. The IMF makes a political choice to support policymaking teams with which it shares an affinity based on common understandings of economic stabilization and reform. Consequently, I expect to observe that the Fund discriminates in its treatment of borrowers in favor of policy teams populated with likeminded officials.

This chapter focuses on a different way of viewing the Fund's decision making process; chapters 3 and 4 present a set of tests of the observable implications from the

theoretical framework using new data collected from the IMF's archives.

### **The IMF as a Technocracy**

If one were to ask an average IMF economist about the sources of the institution's behavior, she would likely reply that her institution attempts to design programs that are commensurate with the depth of macroeconomic distortions in borrowing countries. Political pressures are unimportant; the Fund's decision making reflects the best economic theory and data available at the time. Before developing a model of IMF behavior that accords a central role for either domestic or international political forces, we should consider how the Fund's basic economic approach to the resolution of balance of payments problems shapes conditional lending. The purpose and facilities of the IMF have evolved over time, and a detailed discussion of the evolution of conditionality is beyond the scope of the dissertation.<sup>2</sup> A view of the Fund as an essentially apolitical institution that adjusts its advice and policy prescriptions according to the economic facts of the situation forms the null hypothesis in this study; consequently, I briefly explore some of the economic theory behind the IMF's lending behavior.

#### *A Brief History of IMF Conditional Lending*

Lending by the Fund was justified in the Articles of Agreement, the document ratified by 44 countries at the Bretton Woods conference that established the financial architecture of the postwar era: "to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."

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<sup>2</sup> A number of detailed histories of the IMF are available; the best include Boughton (2001), de Vries (1965, 1986, 1987), Horsefield (1969), and James (1996). Babb (2007), Gould (2006), and Woods (2006) also provide recent, useful overviews of the development of conditional lending.



It is important to note, however, that conditionality was not originally a part of the Fund's mandate. The IMF emerged out of the debate between the United States and Britain over the structure and purpose of the new institution.<sup>3</sup> Both sides agreed on the necessity of a pool of funding that would allow countries to adjust without resort to the competitive devaluations and exchange restrictions of the interwar period.<sup>4</sup> The British delegation preferred an informal clearing union that would provide resources for adjustment without interference in ostensibly national economic policymaking. Keynes' vision was not of a semi-permanent international institution governed by elites from powerful states; instead, "he viewed the new institution as an essentially passive dispenser of large-scale credits, governed by rules that prevented substantial discretionary intervention or oversight."<sup>5</sup> The Americans favored a permanent institution, guided by representatives of national governments through a weighted voting system, headquartered in Washington, and possessing some enforcement powers.<sup>6</sup> The eventual design of the institution reflected the preferences of the American delegates, but the issue of conditionality was not settled into the first decade of the Fund's existence.

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<sup>3</sup> The U.S. was represented at the Bretton Woods conference by Harry Dexter White, a relatively unknown former economics professor at Lawrence University and analyst in the Treasury Department; Britain's representative was perhaps the most influential economist of the twentieth century, John Maynard Keynes. Why the U.S. design triumphed over the British plans is a puzzle taken up by James Boughton, "Why White, not Keynes? Inventing the Postwar International Monetary System," IMF Working Paper WP/02/52 (March 2002). The conventional answer is summarized in a note (authorship unknown) recovered from White's personal papers: "In Washington Lord Halifax once whispered to Lord Keynes: 'It's true they have all the money bags but we have all the brains'" (see Boughton 2002: 3). Superior American power explains the outcome. Boughton contests the conventional wisdom, arguing that White's plan was multilateral in orientation, which earned it broader appeal in comparison to Keynes' plan that "depended on perpetuation of the system of Empire preferences and – despite American opposition to that system – development of a bilateral economic partnership with the United States" (2002: 4). For additional perspectives on the founding of the IMF, see Best, 2005; Eckes 1971; Helleiner, 1994: 25-50; Kahler 2002; Ikenberry, 1993.

<sup>4</sup> de Vries, 1985: 85-86.

<sup>5</sup> Kahler, 2002: 51.

<sup>6</sup> One of the American delegation's central goals for the IMF was to eliminate exchange restrictions and multiple currency practices; this preference was enshrined in the Article VIII provision, which committed signatories to eliminate current account restrictions.

In the immediate postwar period the IMF functioned like a credit union for its members, whereby countries paid in funds (quotas, calculated using a complicated formula based mainly on the relative size of the country's economy) for the right to draw on the resources of the Fund in the event of a *temporary* payments disequilibrium. From its inception the Fund had a twofold purpose: it would vet and sanction departures from the par value system (as well as approving the imposition of temporary exchange restrictions), and the institution would provide financing to make economic adjustment less domestically painful. From the outset, there was continued tension between the proponents (mainly European and Latin American) of the IMF as an automatic disbursement mechanism and the American vision of the IMF as an international institution providing oversight and financing on a conditional basis.

Two decisions helped to establish the practice of conditionality. The first was the decision of March 10, 1948 to allow the Fund to reject, postpone, or subject a member's request for funding to conditions if the request was not consistent with the Articles of Agreement.<sup>7</sup> The second was Managing Director Ivar Rooth's proposal in 1952 that smaller drawings (less than 25 percent of a country's quota) be condition-free, while larger drawings would be subject to scrutiny by the Fund's staff members.<sup>8</sup> The conditional lending guidelines agreed to in October 1952 established the Standby Arrangement (SBA), which would become the workhorse of conditional lending.<sup>9</sup> SBAs were designed to be short to medium term in length (6 to 18 months), and were to be disbursed gradually ("phasing"), upon compliance with previously-agreed policy targets ("performance criteria").

Once conditionality was officially adopted as part of the IMF's mandate, the focus turned to the development of a financial programming model that would enable

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<sup>7</sup> Executive Board Decision No. 284-4; see also IMF Staff Memoranda SM/68/128, July 23, 1968.

<sup>8</sup> See Gould, 2006: 46-48.

<sup>9</sup> Executive Board Decision No. 155-(52/57), October 1, 1952.

staff members to design semi-uniform programs that could help borrowers resolve their payment problems and ensure the timely repayment of loans.<sup>10</sup> Largely based on experiences in Mexico and Chile in the late 1940s and early 1950s, an economist in the IMF's research department named Jacques Polak proposed a simple economic approach that focused on excess domestic demand as the source of balance of payments disequilibrium.<sup>11</sup> The Polak model formed the intellectual grounding for the conditional lending facilities of the next half century.<sup>12</sup>

That is not to say that the Fund's approach to conditionality remained static. As conditions in the world economy changed, the Fund adapted by developing new lending facilities. When the Fund's constituency permanently shifted from wealthy democracies to developing countries in the early 1970s, a longer-term facility (the Extended Fund Facility, or EFF) was created to "address the problems of members whose balances of payments could be turned around only over an extended period."<sup>13</sup> Conditional lending was reviewed in 1978 and 1979 over concerns about unequal treatment of developing countries.<sup>14</sup> The policy approved in March 1979 maintained

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<sup>10</sup> This search for a more uniform approach to conditionality is emphasized in the 1968 conditionality review: "as an increasing number of members began, after 1956, to turn to the Fund for assistance in meeting balance of payments problems, it was realized that the most fruitful way in which the Fund could render this assistance was to support, by means of a standby arrangement, the implementation of a specific set of policies designed to rectify the imbalance." Memoranda to Members of the Executive Board, SM/68/128, July 23, 1968.

<sup>11</sup> Woods, 2006: 40-43; see also Babb, 2007; Barnett and Finnemore, 2004: 51-55. Each author notes that the attraction of the Polak model was enhanced by its simplicity and measurability: according to Woods (2006: 41), "the great advantage of Polak's new approach was that it used data on assets and liabilities in the banking system, which were more widely available and reliable than the national accounts data that other previous approaches to analyzing the balance of payments required."

<sup>12</sup> Fischer 1997 gives a succinct overview of the IMF's conceptual approach to balance of payments disequilibrium. See also R.R. Rhomberg and H.R. Heller, "The Monetary Approach to the Balance of Payments: A Survey of the Fund's Contribution to the Literature," DM/77/25, March 21, 1977. Critiques of the monetary approach are plentiful; examples include Bacha 1987; Krugman and Taylor 1978; Scheetz 1988; Bird 1996; Easterly 2006.

<sup>13</sup> Polak, 1994: 8. The EFF was created in 1974, and enabled signatories to draw on Fund resources over three years.

<sup>14</sup> The perception of unequal treatment had been a sensitive issue following the UK's standby in 1967, which was a large drawing that contained no binding conditions. In a statement before the Managing Director, the Brazilian Executive Director Alexandre Kafka called this agreement a "watershed," noting "that standby brought the Fund holdings of the member's currency practically to the 200 percent mark,

that “while no general rule as to the number and content of performance criteria can be adopted in view of the diversity of problems and institutional arrangements of members, only in special circumstances will performance criteria relate to other than macroeconomic variables.”<sup>15</sup>

Global economic conditions quickly deteriorated after the 1979 guidelines were accepted, and the scope of conditions was expanded to include “structural” targets. Staff members came to recognize that distortionary policies often aggravated payments crises, and that macroeconomic reforms were not likely to be sustainable in the absence of deeper reforms.<sup>16</sup> By the time the Structural Adjustment Fund was established in 1986<sup>17</sup> many programs included conditions related to domestic credit creation, government spending (and sometimes revenue creation), foreign borrowing, and exchange restrictions, as well as structural conditions for eliminating subsidies, freeing prices of goods, trade liberalization, and privatization of state-owned enterprises.

A review of the theoretical background of the IMF’s conditional lending implies that the Fund has built an approach to conditionality based on economic fundamentals. There is no reason to look for political influence if the Fund’s staff and management respond only to objective economic criteria in an effort to maximize the utility of the institution. Economic conditions are uncertain and programs can go off track, but the IMF makes a good-faith effort to achieve positive outcomes in countries in need of balance of payments support.

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which was then considered the effective maximum available. Nevertheless, the staff proposed neither phasing nor performance criteria. While their proposal was supported by the Executive Board, it was also noted that a similar absence of conditionality had not been available to most other members.”

Minutes of Executive Board Meeting, EBM/86/190, December 3, 1986.

<sup>15</sup> Memorandum to the Executive Board, SM/78/296, December 15, 1978.

<sup>16</sup> The Fund’s internal review of structural conditionality emphasized that, by the mid-1980s, most of the staff and management were in agreement that structural reforms were necessary to restore economic growth. Memorandum to the Executive Board, SM/01/60, supplement 2, February 16, 2001.

<sup>17</sup> The SAF was replaced by the Enhanced Structural Adjustment Fund (ESAF) in 1987; the ESAF was replaced by the Poverty Reduction and Growth Facility in 1999.

But economic policymaking – either at the domestic or international level – is unavoidably political.<sup>18</sup> Accepting this makes the task of understanding the IMF more difficult, but allows us to develop a more realistic model of the institution’s decision making process. In contrast to a purely technocratic explanation, cross-national evidence suggests that political variables, which had previously been treated as “residual variation which is left unexplained by economic characteristics,” are in fact important determinants of Fund behavior.<sup>19</sup> I turn now to perspectives that focus on the politicization of IMF lending.

### **Politicization of Fund Lending Practices I: Internal Influences**

If the IMF is prone to political influences, where do those influences emerge, and how do they shape the relationship with borrowers? A common approach looks within the institution for the determinants of the institution’s activities. Within this broad framework, three types of explanations have been posited.

The first explanation treats the IMF as captive to the rent-seeking behavior of individual staff members. Dreher and Vaubel provide a succinct summary of the public choice approach: “the International Monetary Fund is a bureaucracy and ought to be analyzed as such. According to the economic theory of bureaucracy, bureaucrats try to maximize their budget, staff, discretion, and amenities.”<sup>20</sup> One of the observable implications from the public choice perspective is that the Fund’s lending behavior is influenced by exogenous tightening and loosening of constraints on the institution’s bureaucrats. For example, during periods when states’ quota contributions are being reviewed, the Fund’s staff engages in “hurry-up” lending to obtain a quota increase.<sup>21</sup> Alternatively, when the demand for IMF credit grows, the staff uses this opportunity

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<sup>18</sup> This is similar to a central argument in Jonathan Kirshner’s edited volume, which is that “monetary phenomena are *always* and *everywhere* political” (2003: 3).

<sup>19</sup> Bird 1995.

<sup>20</sup> Dreher and Vaubel 2004: 26-27.

<sup>21</sup> Vaubel 1991.

to push for greater influence (conditionality) and disbursements.<sup>22</sup>

The staff's autonomy is relatively unconstrained in the public choice model of IMF behavior. A second theoretical framework that focuses on the internal dynamics of the institution treats the staff's autonomy as a variable. Martin (2007) draws on a principal-agent framework to explain variation in conditionality. The principals in her model are the powerful states that express their interests through representation in the Executive Board.<sup>23</sup> The terms of lending programs proposed by the staff members are subject to approval by the Executive; in practice, the Board rarely questions the proposals from the staff.<sup>24</sup> Nonetheless, Martin takes the possibility of Executive Board influence seriously, arguing that the staff's autonomy depends primarily on the heterogeneity and content of powerful members' interests. The staff has significant autonomy when major member states' interests diverge, when powerful states dislike the status quo, and when states believe that their preferences are aligned with the preferences of the staff. Evidence indicates that these conditions are frequently satisfied: "overall, the process by which the IMF makes decisions on conditionality...show[s] that the staff does, in fact, have substantial autonomy and

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<sup>22</sup> Dreher and Vaubel, 2004: 31.

<sup>23</sup> State interests are represented through the 24 Executive Directors (EDs) that constitute the Executive Board. Eight EDs represent their own countries (the US, UK, Germany, France, Japan, Saudi Arabia, China, and Russia). The remaining EDs represent their own country as well as the countries in their region. Regional definitions are loose: for example, the Swiss ED represents Azerbaijan and other central Asian states; the Canadian ED represents the Caribbean states.

<sup>24</sup> The Executive Board votes on official Fund policies, with voting rights weighted by quotas (which are determined in a complex formula that includes the size of the country's economy). Policy changes require an 85 percent majority – since the US has 17 percent of the votes, it has an effective veto. However, voting on lending proposals from the staff is informal and recorded on an up-or-down basis. The Board never rejects a staff proposal. The only post-1973 example of official intervention by the Executive Directors to modify the content of a proposed loan occurred in 1979, when the Board reduced the size of a proposed loan for Sierra Leone (Gould 2006: 235, fn. 7; Kapur et al 1997: 496). Interestingly, the World Bank's Executive Directors are more active. Catherine Weaver notes that between 1990 and 1993 the American EDs in the Bank voted against staff proposals on 22 occasions and abstained 98 times (2008: 53). Nonetheless, all 120 loan proposals were eventually approved. The evidence from the Bank suggests that there are limits on the power of member states to shape the content of loans, a theme that is explored with reference to the Fund in the next section of the chapter.

influence.”<sup>25</sup> Given their apparent independence, what do staff members want? For Martin, the IMF’s staff and management “are driven primarily by economic (‘technocratic’) considerations.”<sup>26</sup>

The third explanation also focuses on the internal operations of the Fund, but adopts a different view of the interests of the institution’s individual staff members. Barnett and Finnemore (2004) argue that the IMF’s behavior is a function of its bureaucratic culture, rather than budget- and discretion-maximizing behavior or purely technocratic concerns. Within the wide range of action accorded to the IMF by states, the institution’s behavior is mainly shaped by the training of its staff members and the rules and practices that are part of the IMF’s culture.<sup>27</sup> The interests of the Fund’s economists are shaped by the expertise they possess, knowledge that “alerts individuals to the problems that exist in the world, the connections between these problems, and the appropriate solutions to these problems.”<sup>28</sup>

Internally-oriented approaches have weaknesses. Some contend that they portray an unreasonably autonomous institution, as outlined in the following section. I argue that a major drawback of these approaches is that they are too indeterminate: while Martin’s (2007) and Barnett and Finnemore’s (2004) models can explain broad shifts in the Fund’s approach to conditionality, they provide few observable implications related to the cross-national variation in IMF treatment.<sup>29</sup> The public

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<sup>25</sup> Martin, 2007: 164.

<sup>26</sup> Martin, 2007: 142.

<sup>27</sup> According to Barnett and Finnemore, states delegate to international organizations “tasks which they cannot perform themselves and about which they have limited knowledge...IOs are conferred authority, and this authority enables them to use discursive and institutional resources to induce other to defer to their judgment” (2004: 22, 29).

<sup>28</sup> Barnett and Finnemore, 2004: 67. This does not mean that the analytical models they employ are “correct” in an objective sense, although Barnett and Finnemore admit that Fund programs are “undergirded by a body of economic analysis that is accepted by a large number of economists in many countries” (2004: 68).

<sup>29</sup> In Barnett and Finnemore’s defense, their main interest is explaining broad patterns in IMF conditionality over time. I would argue that the more interesting questions relate to the wide cross-national variation in the terms of the IMF’s treatment of borrowers, which is explored in more detail in the next chapter.

choice explanation, on the other hand, portrays a spare and unrealistic image of IMF staff members.<sup>30</sup> I agree with Barnett and Finnemore that the fact that the Fund is dominated by American-trained economists has important consequences. The theoretical framework I develop in following sections generates more specific observable implications about the behavior of the Fund based on the notion that IMF officials share a set of economic beliefs.

### **Politicization of Fund Lending Practices II: External Influences**

The explanations surveyed in the previous section presume that the Fund is relatively insulated from external pressures. This runs strongly against a fundamental approach to the study of international relations. For realists, states are the core units of analysis in international politics. States are primarily oriented to maximizing their own interests, which are derived from the anarchic structure of the international system; since security is scarce, states will use international institutions to protect and advance their interests.<sup>31</sup> Several empirical studies of IMF lending suggest that powerful countries – namely, the United States – frequently intervene in the Fund’s operations.<sup>32</sup> In Randall Stone’s influential studies of lending in Eastern Europe and sub-Saharan Africa, the treatment of borrowers varies according to their strategic importance to the United States.<sup>33</sup> Important countries were able to get gentler

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<sup>30</sup> See Willett 2002.

<sup>31</sup> For fundamental realist perspectives on international institutions see Gruber 2000; Strange 1983; Waltz 1979; Mearsheimer 1994. The realist view of international institutions is contested by Keohane (1984) and Ikenberry (1993, 2001), among others. Because institutions such as the IMF provide benefits that would be very costly to provide unilaterally, powerful states are willing to delegate to these organizations. States like the U.S. are restrained from constantly intervening in the activities of international institutions because effective, credible institutions are in their interests.

<sup>32</sup> Barro and Lee, 2005; Dreher and Jensen, 2007; Harrigan, Wang, and El-Said, 2005; Momani, 2004; Oatley and Yackee, 2004; Stone, 2002, 2004; Thacker, 1999. Proxies for U.S. interest in this line of research include voting similarity within the UN General Assembly (Barro and Lee, Dreher and Jensen, Oatley and Yackee, Thacker), foreign aid (Stone, Oatley and Yackee), bilateral trade with the U.S. (Barro and Lee), and a variable indicating whether a country signed a peace treaty with Israel (Harrigan, Wang, and El-Said).

<sup>33</sup> Stone 2002, 2004. Stone’s measure of strategic importance is the amount of U.S. aid given to a country.



treatment; for example, “both Russian and Ukrainian officials pointed to their special relationship with the United States as the key reason why they could afford to flout IMF conditions.”<sup>34</sup>

Others focus more on Wall Street than the State and Treasury Departments.<sup>35</sup> The IMF’s resources are frequently insufficient to cover the financing gap that a borrower faces. A significant portion of many IMF rescue packages is provided by supplementary financiers – either commercial banks, creditor states, or other multilateral lending institutions. If Citibank, for example, contributed \$500 million to an IMF-led rescue package, we might expect that the bank’s preferences were communicated to the Fund’s staff and management during the negotiation process. Consequently, the IMF’s treatment of borrowers should reflect in part the preferences of those supplementary financiers.

Empirical research has not been very clear on how the interests of external actors are transmitted to the staff and management of the Fund.<sup>36</sup> Three transmission mechanisms are possible. The Executive Board is the avenue for strategic interests built into the IMF’s institutional architecture. The distribution of votes among the Executive Directors is determined in a complex formula that, in theory, reflects the relative importance of each member states in the world economy.<sup>37</sup> Five countries – the U.S., UK, Germany, France, and Japan – have a majority of the votes, with the

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<sup>34</sup> Stone, 2002: 238. Stone’s main argument is about political interference by the U.S., but his research also highlights domestic political factors, such as partisanship and government stability, that influence IMF lending.

<sup>35</sup> Broz and Hawes, 2006; Copelovitch, 2004; Gould, 2003, 2006. The evidence from this emerging area of research is somewhat unclear. Gould (2003, 2006) finds that the inclusion of what she calls “bank-friendly” conditions in IMF agreements is influenced by private financiers; however, this argument is not tested on other aspects of IMF treatment. Results presented in Gould 2006 indicate that the more a borrower is indebted to creditor states, the fewer conditions are included in agreements. Copelovitch (2004) suggests that the composition of a borrower’s private debt affects the influence of both private creditors and powerful states on IMF treatment.

<sup>36</sup> Stone 2002 is an exception; see also Woods 2003.

<sup>37</sup> How well current arrangements actually mirror the global distribution of economic power is debatable. Many observers object to a voting system in which Belgium and the Netherlands have more power than China and India.

United States controlling the largest share (around 17 percent). Based on the distribution of voting power, we might expect to find that the U.S. and other powerful members use the architecture of the Executive Board to influence the terms of the loans given by the Fund.

However, the power of the Executive Directors vis-à-vis the staff and management is circumscribed. Voting on lending proposals from the staff is informal and recorded on an up-or-down basis, and the Board almost always unanimously approves proposed lending programs.<sup>38</sup> This fact is not enough to prove the weakness of the Board, because it may still have significant gatekeeping power. Perhaps the Board does not have to reject the staff's proposals because, by the time proposals are brought for discussion by the Executive Directors, the preferences of the powerful Board members have already been incorporated by the staff in the program's design. Ngaire Woods, for example, argues that the institution's staff members "would virtually never present a recommendation which risked US disapproval."<sup>39</sup> This implies that the Executive Directors (EDs) from powerful countries such as the U.S. are in contact with staff members during the negotiation process over loans, and are able to communicate their home country's preferences to the economists.<sup>40</sup> To the extent that powerful states exert influence on the content of IMF programs, the pressure is likely to take place informally through back channels. Location and

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<sup>38</sup> See footnote 24 in this chapter.

<sup>39</sup> Woods 2003: 107. Barnett and Finnemore make a similar claim: "[staff members] rarely send proposals to the board that they believe it will reject" (2004: 50).

<sup>40</sup> Personal interviews confirmed that staff are aware of the general preferences of Board members and will rarely propose a program that has major sticking points for the EDs. Because of their politically sensitive positions, none of the Executive Directors I interviewed wanted to be identified by name. Several interviewees described informal lobbying by EDs about aspects of programs. One Executive Director from a European country argued that the staff and the managing director will not allow a proposal to be brought before the Board if they feel that the program does not have adequate support (Executive Director Interview No. 4, January 17, 2008). Other Executive Directors described programs that have been supported despite vociferous opposition from powerful members; one mentioned that certain EDs promise to "make some noise" during Board meetings if they do not like aspects of the proposal, but that these proposals are approved nonetheless (Executive Director Interview No. 6, January 24, 2008).

resources matter: the IMF is headquartered several blocks from the White House and the Treasury Department, and the United States' "extensive diplomatic corps" enable it to expend time and energy to lobby individual staff members and keep them apprised of U.S. interest in specific lending arrangements.<sup>41</sup>

Evidence, however, suggests that the staff have been able to wrest control of the crucial aspects of the lending process from the Executive Directors. Only the Executive Director representing a borrowing country is part of the negotiation process.<sup>42</sup> EDs frequently complain that they are not briefed by staff members during missions to prospective borrowers. The Board meeting in which the Letter of Intent is discussed may be the first time that Directors have seen the content of the final version of the agreement. This has long been a problem for country representatives on the Board: in a January 1987 memo from the Saudi Executive Director Yusuf Nimatallah to Sterie Beza, Associate Director of the Western Hemisphere Department, the Executive Director complained that "members of the Board are put in an embarrassing position every time their authorities learn before them in detail about important country adjustment programs supported by the Fund." Referring to the withholding of information about lending arrangements with Mexico and Argentina, Nimatallah stated: "I do not appreciate the Board to be perceived as a rubber stamp that learns about cases only after the whole world has learned there is an 'agreement' between the Fund and member countries."<sup>43</sup>

Alternatively, powerful states might be able to influence the Fund's behavior by influencing staffing decisions. As I discuss in more detail in the next section of this

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<sup>41</sup> Randall Stone refers to this as "informal governance" of the IMF. Stone, 2008: 595 (quote).

<sup>42</sup> Stone 2008: 595. In nearly every interview I conducted the Executive Director described his or her role as a mediator between the borrowing country and the IMF during the negotiation process. The ED acts as a liaison, explaining the staff's position to the negotiator and alerting the staff members to the government's preferences.

<sup>43</sup> Office Memorandum from Yusuf A. Nimatallah (Executive Director) to Sterie Beza (Associate Director, Western Hemisphere Department), "Argentina," January 16, 1987.

chapter, while the vast majority of the staff are not from English-speaking countries, most of the IMF's economists are trained in economics departments in the United States and Britain.<sup>44</sup> One implication of the prevalence in the IMF and World Bank of American-trained economists is that "US 'knowledge' is embedded in both international financial institutions and is yet another instrument through which US economic and political interests are furthered."<sup>45</sup>

The third mechanism of external influence is essentially functionalist. According to Gould, "supplementary financing is often crucial for the success of individual Fund programs, because the Fund only provides a fraction of the amount of money necessary for a borrowing country to balance its payments and implement the Fund-designed program successfully."<sup>46</sup> Because the Fund's management works to cobble together additional private funding to supplement its resources, private financiers can informally apply pressure to influence the content of agreements.

Statistical analyses have demonstrated a relationship between indicators of external interest and aspects of IMF treatment, but the mechanisms linking the strategic interests of the United States and the preferences of private and official creditors to the behavior of the Fund are not always clear.<sup>47</sup> Evidence for the influence of supplementary financiers is limited.<sup>48</sup> In some high-profile cases, the influence of

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<sup>44</sup> For example, nearly 90 percent of PhD economists hired in 1996 earned the degree in an American or Canadian economics department (see Clark 1996).

<sup>45</sup> Woods 2003: 108.

<sup>46</sup> Gould, 2003: 555. The IMF adopted "concerted lending" as a strategy during the debt crisis of the early 1980s to keep private capital flowing to debtors from highly exposed banks. The collective action problem inherent to this strategy was a major obstacle; for example, when the Mexican crisis erupted in August 1982 over 500 creditor banks were involved in the effort led by the Fund's managing director, Jacques de Larosiere (Boughton, 2001: 309).

<sup>47</sup> This point is also made by Ngaire Woods, who writes that "the findings from correlations between U.S. preferences and IMF lending patterns suggest that U.S. influence is significant in the institution but that it is difficult to precisely track" (2006: 36).

<sup>48</sup> Empirical research on this model of IMF behavior is just emerging. As I discuss in the next chapter, there are issues with the measures of financial influence used in this line of research; in addition, the mechanisms linking private financiers to the decision making process within the IMF are unclear. Gould admits that the influence of supplementary financiers "is often at the margins" (2003: 561).

the United States is obvious – meddling by American officials in the Russian agreements in the mid-1990s and the Korean bailout in 1997, for example, has been adequately demonstrated.<sup>49</sup> Other cases demonstrate the limits of international influence. In January 1983 the IMF approved a loan to Argentina, despite the fact that the Argentines maintained discriminatory exchange practices against one of the institution’s more influential members, Britain.<sup>50</sup> The Fund refused to buckle under strong pressure from the U.S. Treasury to restore a suspended program to Argentina in 1988.<sup>51</sup> It extended the largest loan in its history up to that point – with few conditions – to India in 1981 against the heavy resistance expressed by American policymakers.<sup>52</sup> The Executive Board approved a waiver for non-observance of a number of performance criteria in a 1994 Standby Arrangement with Vietnam despite the a litany of concerns about the program detailed by Karin Lissakers, the American ED, and the United States’ official abstention from the Board’s decision.<sup>53</sup>

Much of the IMF’s lending activities take place in countries that are peripheral to American strategic interests. As noted above, there are instances that suggest that American influence is limited even in large countries.<sup>54</sup> The role of external pressures is ultimately an empirical question, and in the following chapters I subject these

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<sup>49</sup> Stone, 2002: 128-45; Blustein, 2001.

<sup>50</sup> The Argentine case is discussed in detail in chapter 5.

<sup>51</sup> See Boughton, 2001: 472-75; Polak, 1994: 32-37; Woods 2006: 51.

<sup>52</sup> *The Washington Post* reported that “the United States appears to be making an effort to put the brakes on a scheduled \$5.5 billion loan to India, the biggest in IMF’s history - which according to IMF insiders is being made ‘without agonizing conditions.’ For the United States, the IMF loan to India (which over the years has been IDA’s biggest client) appears to epitomize all of its complaints about the unnecessary generosity of both the World Bank and the IMF.” Treasury Secretary Regan added the following public statement: “I’m just suggesting that there are a lot of questions about the loan to India. There are a lot of questions about it that we’ll have to ask, because if we don’t, they will be asked for us by our friends on the Hill.” Hobart Rowen, “World Bank, IMF: Santas Or Scrooges?” *The Washington Post*, September 27, 1981, pg. H1.

<sup>53</sup> Minutes of Executive Board Meeting, EBM/94/52, June 8, 1994.

<sup>54</sup> Additionally, new research on the evolution of conditionality and the IMF’s position on capital account liberalization minimize the role that the U.S. played in internal organizational shifts. See Gould 2006 on conditionality and Abdelal 2007, Chwieroth 2008, and Leiteritz 2005 on capital account openness.

explanations to tough tests. I argue that the evidence is most consistent with Woods' argument that the U.S. sets the broad parameters in which the institution operates; within these expansive parameters, the IMF can pursue a wide range of activities.<sup>55</sup>

### **International and Domestic Interactions**

Other research treats conditional lending as a bargain struck between the IMF and a borrowing government.<sup>56</sup> The work described in the preceding pages focuses on the Fund-side of the bargain. Given that programs are the outcome of negotiations between the Fund and government officials, it seems important to consider domestic-level factors that might influence how the government views the Fund, and vice versa. Inspired by pioneering work in the interaction of domestic and international levels, a handful of scholars have turned to domestic institutions – broadly defined – to explain treatment by the IMF.<sup>57</sup> The list of “important” domestic institutional variables is large and growing. Researchers have identified regime type, fractionalization in national legislatures, partisanship, the presence of veto players, and the election cycle as possible determinants of outcomes in IMF negotiations.<sup>58</sup>

There is a common logic to this line of research. The international institution and the government want to maximize the utility they derive from the relationship, but

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<sup>55</sup> Woods writes that “powerful countries define the outer perimeter within which each organization works...This sets down a general direction for the institution, but seldom defines the detail of what each of the IMF and World Bank do” (2006: 180).

<sup>56</sup> Boughton 2006: 20; Conway 2006.

<sup>57</sup> Foundational efforts to conceptualize the interaction of domestic and international levels can be found in Katzenstein 1978 and Gourevitch 1978. Important extensions to international institutions, inspired by Schelling 1960, include Putnam 1988 and Milner 1997.

<sup>58</sup> On regime type, see Nooruddin and Simmons, 2006, Przeworski and Vreeland, 2000, Smith and Vreeland, 2006; on fractionalization, Edwards, 2002 and Stone, 2002; on partisanship, Pop-Eleches, 2003, Stone 2002, 2004; on veto players, Vreeland 2003; on elections, Dreher, 2006. Interactive models of IMF-borrower relations present a dilemma: there is a huge variety of domestic factors that could be expected to have some kind of impact on the design of IMF programs. Unless the implicit assumptions that motivate the IMF and domestic actors are examined, the line of research will look less like a coherent research program and more like “an almost endless list of domestic conditions, institutions, bargaining tactics, personalities, and factors that might ‘matter.’” Beth Simmons expressed this caution in her study of international monetary cooperation during the interwar period. See Simmons 1994: 283. Robert Putnam expressed a similar concern about “ad hoc lists of countless ‘domestic influences’ on foreign policy” (1988: 430).

both sides operate under constraints. It is typically assumed that the Fund prefers to expand its influence over domestic policymaking and wants its programs to be successful. A major obstacle to the Fund's ability to maximize its utility is that the borrowing government possesses private information about its "true" commitment to the program, and has incentives to misrepresent its degree of commitment in order to obtain the best possible terms.<sup>59</sup> Domestic institutional variables are important because they can mitigate – but not eliminate – the information problem: for example, the IMF observes that governments are more likely to pursue profligate policies in the run up to elections; governments dominated by left parties are less likely to be able to carry out painful adjustment measures; regimes with fewer veto players might be more insulated from societal pressures to scale back reforms, and so on. If the IMF is a strategic actor, domestic factors should influence its treatment of borrowers: the design of programs should reflect the level of predictable political risk that the IMF takes on when it extends a loan.<sup>60</sup>

### **An Alternative Perspective: Ideas and the Purpose of the Fund**

The conventional explanations are spotlights: they illuminate one part of the institution's behavior while many other important aspects of the Fund's decision making process remain obscured. Proponents of a technocratic view of the IMF rightly observe that the Fund has an underlying economic model that shapes its basic approach to economic stabilization and reform in the developing world – but they fail to recognize that its decision making process cannot be isolated from political dynamics. The political explanations that focus exclusively on the institution itself – portraying the Fund as in thrall to the interests of bureaucrats or external actors – miss half the story: we need to understand something about the characteristics of the

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<sup>59</sup> Mosley, Harrigan, and Tøye 1991; Kahler 1992: 102.

<sup>60</sup> Koremenos 2005 develops a similar idea in her model of institutional design in the presence of weak information about the future behavior of states.

borrower as well as the IMF. Research that highlights the interaction between the domestic and international levels fixes attention on the domestic political institutions and processes that provide information to the Fund and influence borrowing governments' negotiating strategies. But this view ignores the way in which the ideas held by IMF economists shape how the institution interprets signals about the political environment in the borrowing country.

The effort to develop a different model of IMF lending behavior starts with the observation that the Fund is less constrained by structural forces than is typically recognized. Over time the Fund's staff members have attained significant autonomy, as evinced by the relative weakness of the Executive Directors. Back channels may provide informal means of control of the Fund's agenda for interested governments in powerful member states, but the numerous episodes in which the Fund made decisions that were opposed by the United States (or other important countries) suggest that there are limits to states' abilities to meddle in the lending process. The IMF should not be treated as simply a foreign policy instrument of the U.S. Treasury or Citibank.<sup>61</sup>

Nor should the Fund's strategic environment be confused with that facing the institution's member states. Realists argue that states within the international system are constrained by competitive pressures "in a way analogous to the manner in which the range of choices presented to consumers and firms is expressed by market forces that derive from the collective behavior of all participants but that are beyond the control of any particular actor."<sup>62</sup> Unlike sovereign states the Fund does not face

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<sup>61</sup> Even scholars writing on the IMF that are sympathetic to the realist view of international institutions admit that the Fund has significant autonomy. For example, Randall Stone argues that "in ordinary times, the United States and other shareholders have no compelling interest in intervening in the details of conditionality, and the Fund creates policies autonomously" (2008: 593). Many have observed a congruence "between IMF conditions and U.S. material and strategic interests" (Kirshner 2003: 279). But the fact that the U.S. generally approves of the Fund's policies does not mean that the institution is the handmaiden of its most powerful member.

<sup>62</sup> Kirshner 2007: 19. Note that Kirshner is illustrating (not advocating) the claim that the anarchic international system is analogous to a competitive market, a view that was popularized most forcefully by Waltz (1979).



threats to its survival from competing institutions.<sup>63</sup> The Fund's resources dwarf those possessed by the regional development banks.<sup>64</sup> Despite its extensive involvement with poor countries since the late 1970s, the IMF is not a development organization like its neighbor on H Street in Washington, the World Bank, or the other bilateral and multilateral foreign aid organizations. The only potential alternative sources of funding for countries that might need Fund resources are private capital markets or creditor states. Because capital flows tend to be pro-cyclical, low and middle income countries that are in economic trouble frequently find that the IMF is their only economic lifeline.<sup>65</sup> For many of the Fund's client states, access to private capital is limited even when global financial conditions are benign.

The IMF is far less constrained in its activities than profit-seeking private agents. Investors in developing countries have to consider the possibility that borrowers will renege on their debts. It is reasonable to assume that investors that want to turn a profit (which is to say *all* investors that plan to keep their jobs) will rationally update their beliefs about the type of government based on its observed

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<sup>63</sup> Attempts to create alternative multilateral lending arrangements have not made much headway. In 1976 a consortium of six private American banks attempted to impose conditionality in exchange for additional loans, but the banks were spectacularly unsuccessful in enforcing the conditions and eventually Peru was forced to go to the Fund (Rodrik 1996: 179). In the early 1980s the Andean Reserve Fund was proposed as an alternative to the IMF in Latin America, but few countries contributed funding; only in 1991 did a new country, Costa Rica, join. Japan's proposal to create an Asian Monetary Fund after the financial crisis of 1997-98 was stymied by American opposition (Kirshner 2003: 279).

<sup>64</sup> As of writing the IMF has just over \$250 billion in resources to distribute to its members. During the April 2009 G20 meetings member states, led by Japan, the U.S. and the core EU countries, pledged to more than triple the Fund's available resources.

<sup>65</sup> The recent experience of Pakistan offers lessons in this regard. Following the outbreak of the global financial crisis in September 2008, the Pakistani central bank's reserves dwindled to just \$3.4 billion by November, an amount that only covers one month of imports. Pakistan sought funds from the United States, which has a strong security interest in backing the stability of the government, and from China, which possessed over \$1 trillion in reserves and had provided a \$500 billion bilateral loan in 1996 when Pakistan teetered on the brink of default. Neither the Americans nor the Chinese were willing to help President Zardari's government, and Pakistan was forced to turn to the IMF for a \$7.6 billion standby arrangement. See Jane Perlez, "Monetary Fund Approves \$7.6 billion Loan to Pakistan," *The New York Times*, November 25, 2008; "Rebuffed by China, Pakistan May Seek IMF Aid," *The New York Times*, October 19, 2008.

performance.<sup>66</sup> But unlike private investors, the Fund does not face the risk that its borrowers will default. It has preferred creditor status, meaning that by custom IMF loans are repaid before any other outstanding (including private) debts.<sup>67</sup> Only a handful of countries that experienced severe economic or political trauma have fallen into protracted arrears to the IMF.<sup>68</sup>

There is another way in which the IMF is insulated from external political pressures. The IMF does not depend on contributions from member states to fund its operations.<sup>69</sup> Rather, the budget for the institution comes from the interest paid by members that make purchases of IMF currency. At intervals (usually every five years) the quotas for member states are increased, and in the United States any changes must be approved by the legislature, but the Fund “does not have to negotiate on a regular basis with states and, more importantly, rely on nonexpert branches of government like the U.S. Congress, which would have to appropriate money.”<sup>70</sup>

The upshot is that structural pressures do not select a set of optimal policies for

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<sup>66</sup> See Tomz 2007 (esp. chapter 2, pp. 14-36).

<sup>67</sup> Stone 2002: 11.

<sup>68</sup> In 2002 five countries – the Democratic Republic of Congo, Liberia, Somalia, Sudan, and Zimbabwe – were more than six months behind in loan repayments (the point at which the IMF considers a country to be in protracted arrears). The five countries accounted for 98 percent of all overdue obligations. Zimbabwe has remained in arrears to the Fund since 2001. Woods notes that the repayment problem was more pressing at the end of the 1980s, when 11 countries were in protracted arrears (2006: 165). However, the point remains: nearly all countries eventually clear their debts to the Fund.

<sup>69</sup> Funding is another way in which the IMF is distinguished from the World Bank. The Bank is split into several agencies; most of the Bank’s activities in developing countries are through the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD is funded through the sale of triple-A rated bonds to private investors; the IDA, which focuses on lending to the world’s poorest countries, is funded through payments by donor countries. Both sources of funding increase the leverage of the United States over the Bank’s activities compared to the Fund. Weaver points out that during the postwar era “nearly 85 percent of the Bank bonds sold on private capital markets were denominated in American dollars and traded on U.S. markets. This theoretically meant that the United States could influence the Bank’s policy and practices by threatening to deny it access to the U.S. private capital market” (2008: 51). The U.S. contribution to the IDA has to be approved annually by Congress.

<sup>70</sup> Barnett and Finnemore, 2004: 49-50. It is worth noting that the Fund also has in its reserves 3,217 metric tons of gold, valued (in March 2009) at just under \$100 billion. The Fund’s large gold holdings reflect a historical quirk: in 1945, the institution’s new members were required to pay a quarter of their first quota in gold. Some members also chose to repay their loans in gold during the Bretton Woods period.

the Fund. We cannot assume that the IMF's interests are derived from the dynamics of the world economy and the constellation of state interests therein. Rather, I argue that the IMF should be viewed as a purposive actor in world politics that relies on a set of economic ideas to manage uncertainty. In order to understand how the IMF makes decisions about the prudent use of its resources in the developing countries that constitute its main constituency, we need to explore the ideas held by the institution's top officials. Economic ideas shape the institution's activities by defining problems and suggesting solutions. A very brief review of the IMF's history demonstrates how the purpose of the institution has been defined and re-defined over time.

The IMF was created in 1945 to provide balance of payments support on a short-term basis for countries on the system of fixed exchange rates. As noted above, the Fund's support was intended to allow countries to adjust without resorting to the competitive devaluations that characterized the interwar period. For the first 25 years of the Fund's existence, most of the IMF's resources went to the advanced industrial countries of Western Europe. When the United States closed the Gold Window on August 16, 1971 and countries were allowed to float their currencies, the IMF was essentially rendered irrelevant. The United States and other powerful members showed little interest in taking advantage of the uncertainty over the Fund's mandate to use the institution for strategic purposes.<sup>71</sup>

The growing integration of international financial markets in the mid-1970s, which enabled the wealthy democracies to borrow privately for financing purposes, further eroded the IMF's mandate. In response, the IMF turned its attention to the

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<sup>71</sup> It is worthwhile noting that the Nixon administration, perhaps the most *realpolitik* American presidency of the postwar period, treated the IMF with contempt. Harold James's magisterial *International Monetary Cooperation since Bretton Woods* contains a revealing anecdote: Bob Haldeman, the White House chief of staff, noted in his diaries that Nixon threatened to fire his top advisor on international economic affairs, Peter Peterson, after the advisor went to lunch with the Fund's Managing Director, Pierre Paul Schweitzer. In Richard Nixon's view, "international cooperation appeared to be suspect; international agencies futile" (James 1996: 209).

developing world. Outside of Latin America, the institution had rather limited experience in lending to low- and middle-income countries. History was a poor guide for the institution. The problems experienced by developing countries were deeper than the temporary disequilibria that drove countries such as Great Britain to the Fund in the 1950s and 1960s. The new set of countries that sought IMF support “were often poor, their economies were incompletely marketized, their financial systems were rudimentary, and most had balance-of-payments problems.”<sup>72</sup>

The IMF also confronted a rapidly changing international economic environment between the mid-1970s to the early 1980s. The increase in oil prices and major hike in international interest rates conspired to render many developing countries incapable of servicing their debts. During this unsettled period the carriers of neoliberal economic beliefs took the reins of the institution.<sup>73</sup> The officials in the regional departments of the Fund and the top management increasingly were drawn from graduate programs in top-ranked American economics departments. The ideas carried by these agents provided a map to make sense of the highly uncertain policy environment and, in turn, enabled them to reshape the institution’s purpose. From the late 1970s the IMF faced challenges to global financial stability that were individually highly unique – the debt crisis of 1982, the transition from communism to market democracy after 1989, the financial crises originating in East Asia in 1997, the global credit crisis that emerged in September 2008 – and in each case neoliberal economic ideas provided a way for the Fund’s economists to reduce the uncertainty of the situation.<sup>74</sup>

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<sup>72</sup> Barnett and Finnemore 2004: 59.

<sup>73</sup> Chwieroth 2007c: 18-19. The early 1980s marked a period of intellectual transformation for both the World Bank and the Fund. The Bank also became a center for neoliberal thinking; see Stiglitz 2003: 12-14; Weaver 2008: 76-79.

<sup>74</sup> My argument mirrors Blyth’s claim that “in moments of economic crisis, ideas are important explanatory devices that *themselves* reduce uncertainty” (2002: 37).

It is important to understand that the IMF is dominated by a group of neoliberal economists.<sup>75</sup> The term “neoliberal” denotes an evolving group of economic ideas that constitute a shared mental model.<sup>76</sup> Neoliberalism as a concept signifies a broad consensus organized around some basic theoretical assumptions from economics and a set of auxiliary policy implications.

The theoretical core of neoliberalism is a revived version of classical liberal economics. Three assumptions are widely shared within the consensus: the market is the most efficient mechanism for allocating resources; market actors have rational beliefs; and free exchange of goods across borders is desirable.<sup>77</sup> Three widely-held policy recommendations flow from these assumptions: governments should pursue fiscal discipline; a country’s economic orientation should be outward; countries should rely on markets for the allocation of goods and resources and for the setting of prices.<sup>78</sup>

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<sup>75</sup> This claim resembles Barnett and Finnemore’s observation that “it matters, for instance, that the IMF is staffed by economists and not anthropologists or political scientists” (2004: 47). Where I differ from Barnett and Finnemore is that my argument focuses on a set of shared neoliberal economic ideas held by the Fund’s economists, rather than the technical skills possessed by trained economists.

<sup>76</sup> Denzau and North (1994) define shared mental models broadly as sets of causal beliefs, widely shared, that help individuals interpret the world.

<sup>77</sup> I have adopted these three from Hay’s (2007: 54) more extensive list of characteristics of neoliberalism. I chose these three because they had the most universal support in Colander’s surveys (1987, 2005) of the beliefs of PhD students in economics departments at Chicago, Harvard, MIT, and Stanford. It is important to note that I refer to neoliberalism as a consensus in the broadest sense; there are certainly disagreements among top economics departments, but these conflicts are marginal compared to, for example, the contrast between the views of an IMF economist and an interventionist Tanzanian finance minister. I should also note that neoliberalism as a shared mental model does not mean that these ideas were widely accepted by policymakers in low- and middle-income countries. A comment by former Kenyan central bank governor Duncan Ndegwa exemplifies the skepticism with which many developing country policymakers viewed neoliberal ideas: “I remain dubious whether the price mechanism is the dominant leverage for allocation of resources in less developed economies...If indigenous economic specialists are asked, they will probably say it is kinship and natural and political factors that play a more dominant role, with price and religious factors playing secondary roles” (quoted in Alan Cowell, “The IMF’s Imbroglia in Africa,” *The New York Times*, March 14, 1982, pg. 4; see chapter 3 in van de Walle 2001 for more evidence on anti-neoliberal views held by many indigenously-trained African economists). I am referring to ideas that constituted “*the common core of wisdom embraced by all serious economists*” (Williamson 1993: 1334 [italics added for emphasis]).

<sup>78</sup> John Williamson suggested ten policy orientations that constituted the “Washington Consensus;” Nicolas van de Walle narrows the list down to the three that I adopt in the dissertation. See Williamson 1993: 1329-36; van de Walle 2001: 140. Charles Gore highlights three slightly different broad

Neoliberalism emerged from the top American economics departments, and to the extent that American-trained economists diffused through the IMF and World Bank, these institutions became centers for neoliberal thinking. To demonstrate the degree to which neoliberal ideas have been diffused within the institution, I collected from the IMF's archive a complete record of the appointments of upper-level management between 1980 and 1995. An institutional rule requires that the Managing Director notify the Executive Board of all appointments at or above the rank of division chief; the documents that are circulated to the Board contain information on the nationality, work experience, and educational background of appointees to senior positions.<sup>79</sup> The data collection yielded a record of 554 separate appointments to senior positions within the IMF.<sup>80</sup> The two figures below present descriptive statistics on the backgrounds of upper-level appointments at the Fund.<sup>81</sup>

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neoliberal policy recommendations: control inflation and reduce deficits; open to trade and capital flows; free domestic product and factor markets through deregulation and privatization (2000: 789).

<sup>79</sup> Rule N-12 was established on September 25, 1946 and amended in 1959 and 1979 because of changes in the internal organization of the Fund. It was not until the 1979 amendment that background information on appointees was provided to the Executive Board. A complete record of the staffing of the IMF from newly hired economists to senior staff would be ideal, but a record of internal hiring is unavailable and internal surveys are spotty. Momani 2005 presents data on recruitment to its training program.

<sup>80</sup> Rule N-12 requires notification of the appointment of upper-level administrative staff, but I only included appointments to positions within the IMF that have an involvement in the design and evaluation of lending policies in the dataset.

<sup>81</sup> Note: in figure 2.1, diamonds denote appointments with an MA or PhD from American economics departments; triangles denote appointments with an MA or above from top-30 ranked American economics departments; squares denote appointments with an MA or above from an American economics department or economics departments at Oxford, Cambridge, LSE, and the University of London. Figure 2.2 illustrates the proportion of American (denoted by diamonds) and British (triangles) nationals appointed to upper level positions each year.

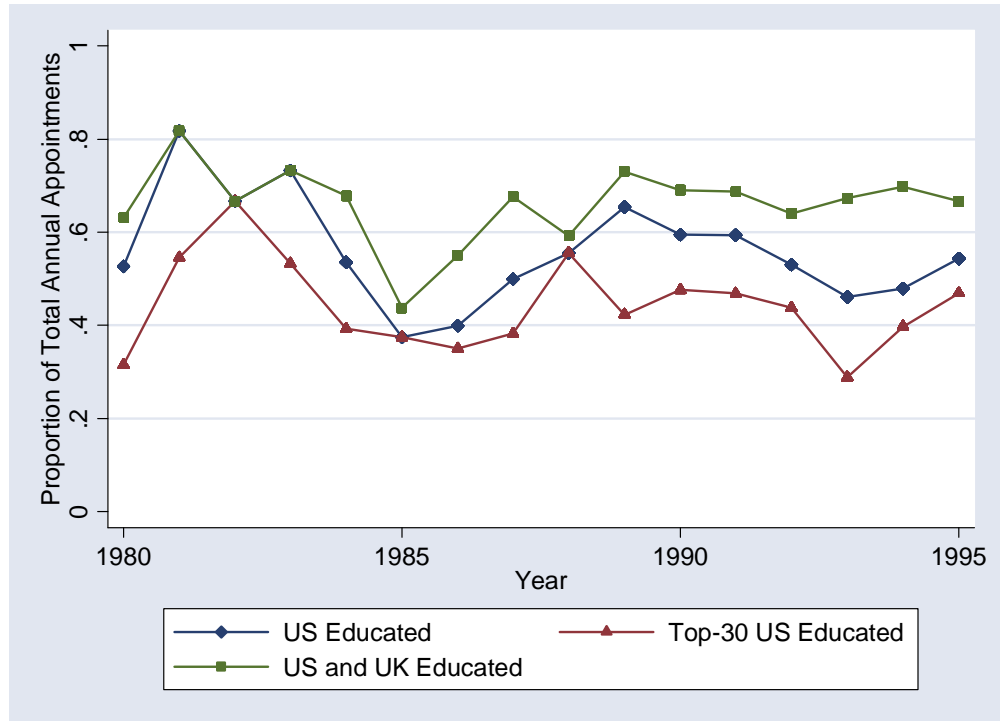


Figure 2.1: Training of Upper-Level Staff Appointees at the IMF, 1980 – 1995

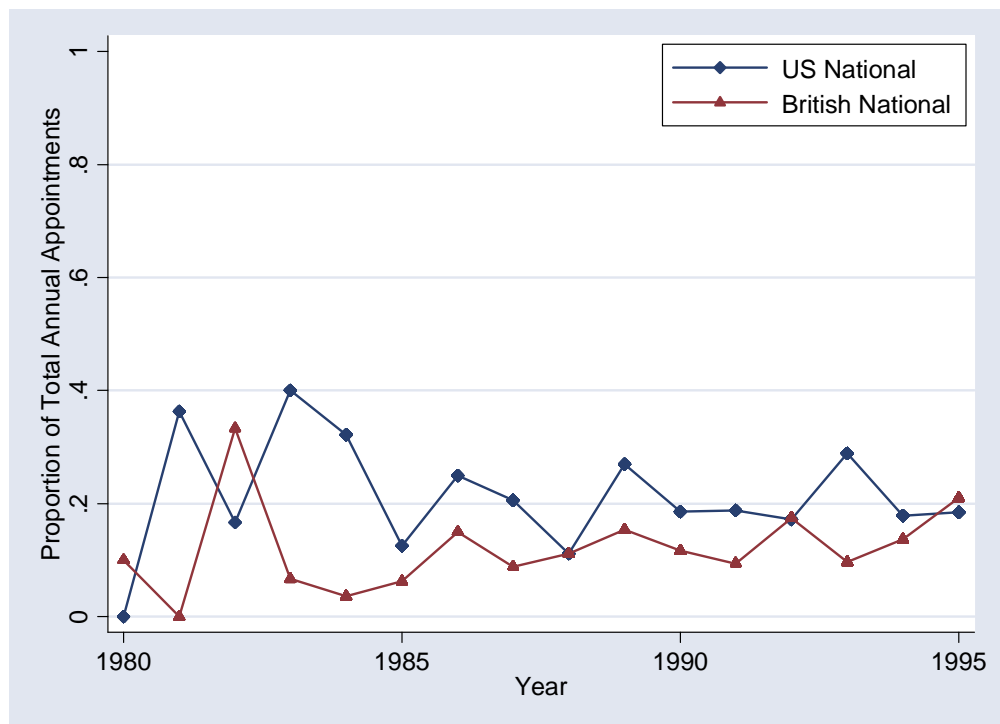


Figure 2.2: Proportion of Anglo-American Upper-Level Staff Appointees

The figures confirm what many observers suspect: at its upper levels, the IMF is a remarkably intellectually homogenous institution.<sup>82</sup> From 1988 through 1995 around 70 percent of upper-level appointments received graduate training in either an American economics department or at one of the major British institutions (Oxford, Cambridge, London School of Economics, and University of London). For most of the period for which I have data, between 40 and 60 percent of senior appointments were trained in highly ranked, mainstream American economics departments, which are typically regarded as incubators of neoliberal ideas.<sup>83</sup> The Fund is a far less homogenous institution at the upper levels in terms of nationality: figure 2.2 shows that the proportion of American nationals promoted to senior positions is usually between 10 and 20 percent of all appointments. While Americans and Brits are overrepresented in top management positions, more than half of top-level appointments come from other countries.

#### *Neoliberal Ideas and the Fund's Brand of Politics*

In the first step of my argument I made the case that the Fund's lending behavior cannot be fully explained by the narrow material interests of member states, private financial actors, or individual staff members. The rich and powerful member countries – which have proven incapable or unwilling to deal with intractable problems in the developing world – delegated an enormous amount of authority to the IMF over time.<sup>84</sup> The Fund's purpose in the world, in turn, is shaped by the neoliberal

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<sup>82</sup> For example, Ngaire Woods, writing on the Fund and the Bank, observes that “the similar graduate training shared by staff in each organization gives them a shared, albeit narrow, methodology and particular understanding of its problems and their solutions” (2006: 54).

<sup>83</sup> There is no accepted methodology for ranking academic departments. Nonetheless, I take some comfort from the stability in rankings among the top-30 departments over the past twenty years; there is significant movement among the top-30, but little movement across methodologies in and out of the group of 30 economics departments in U.S. universities. I generated the list by examining rankings published in major economics journals from 1975 to the present; the list includes Davis and Papanek 1984; Dusansky and Vernon 1998; Graves et al 1982; Hirsch et al 1984; Hogan 1984; Scott and Mitias 1996.

<sup>84</sup> Barnett and Finnemore 2004.



economic ideas held by the Fund's top officials. Jonathan Kirshner's formulation accurately captures the missionary spirit that drives IMF staff members in their work in developing countries: "confident in their faith, and with a sincere hope to improve the world, they are more Billy Graham than Bismarck."<sup>85</sup>

I deemphasize the role of international and bureaucratic politics in defining the Fund's environment and guiding the activities of its officials. But this does not mean that the international financial institutions are insulated from political relations. The second step in my argument follows Ngaire Woods' observation that "the IMF and the World Bank operate in a marketplace not just of ideas but of politics and social forces."<sup>86</sup> In the remaining sections of the chapter I trace how the shared economic ideas that shape the Fund's purpose impart a political bias to the IMF's lending activities: I argue that the IMF has a clear preference for governments that feature likeminded neoliberal officials in top policymaking positions.

Publicly, the IMF frames its relationship with member governments in technocratic, apolitical terms; indeed, the Fund's Articles of Agreement require the institution's staff members to avoid political bias in their work.<sup>87</sup> The technical skills possessed by the staff are an important reason why states delegate authority to the institution, and the Fund's basic approach to stabilization and reform rests on a large, sophisticated body of economic research.<sup>88</sup> But serving the institution's purpose requires that the staff and management go beyond deductive theorizing and data-driven economic forecasting.

The IMF has to make choices about the prudent use of its resources in

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<sup>85</sup> Kirshner, 2003: 279.

<sup>86</sup> Woods 2006: 69.

<sup>87</sup> Swedberg 1986.

<sup>88</sup> Barnett and Finnemore 2004. Staff members in the IMF's Research Department produce analyses that stay within the institution, but are also deeply engaged in broader professional debates and contribute to frontier research in macroeconomics.

countries that face complex and unsettled political circumstances. Assume that the IMF is willing to lend its resources for the purposes of inducing a set of policy changes in the borrowing country; these changes are intended to lead to better economic performance in the future through more disciplined macroeconomic policies and fewer structural impediments to productive economic activity in borrowing countries. The ability of the IMF to achieve its purpose in borrowing countries is not simply a matter of correctly diagnosing the problems and convincing policymakers to take steps to correct the distortions; Fund officials have to contend with unpredictable economic and – in particular – *political* dynamics which can drive programs off course.

Evidence of the difficult lending environment confronting the IMF comes from an internal staff review of the implementation of structural adjustment programs.<sup>89</sup> The record of implementation in low income countries is poor. Programs were interrupted due to noncompliance in 28 out of 36 developing countries that concluded Structural Adjustment and Enhanced Structural Adjustment Facilities (SAF/ESAF) between 1986 and 1994. Less than a quarter of the arrangements signed during the period were completed without significant deviations. Even more remarkable than the low success rate is the diversity of factors that are blamed for forcing programs off track in the staff's review memorandum. In some countries economic officials and IMF staff were unable to agree on the pace or depth of adjustment once the program was underway. For example, the interruption of Benin's 1990 program is attributed to protracted negotiations with labor unions that altered the government's approach to fiscal management; the failure of Mauritania's program in the early 1990s is blamed on disagreement about the need to improve macroeconomic policies in the face of

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<sup>89</sup> Staff Memorandum for the Executive Board, "Review of Experiences under ESAF-Supported Arrangement – Staff Studies, Volume 2," EBS/97/112, Supplement 2, July 7, 1997.

declining levels of foreign assistance. Political disruptions, ranging from widespread ethnic violence in Burundi, to the introduction of multiparty government in Burkina Faso, Ghana, and Guinea that “deflected the attention of the authorities from the economic program,” to the “pre-electoral climate” in Sri Lanka and Bolivia, impacted a number of programs. External shocks – unanticipated declines in commodity prices, sudden drops in external financing commitments, and droughts, floods, and other natural disasters – led to noncompliance in at least a third of structural adjustment programs concluded between 1986 and 1994. Other programs that failed did so because of weak administrative and technical capabilities.

How does the Fund navigate complex political dynamics in borrowing countries? Evidence from interviews and public statements indicates that upper-level officials at the Fund pay close attention to the character of the small group of policymakers involved in program negotiations.<sup>90</sup> In personal interviews two separate Executive Directors, one from a southern African country and the other representing a country in Latin America, described the “commitment” of the economic policymaking team in a borrowing country as the single most important factor in their evaluations of the prospects for a lending program.<sup>91</sup> Another highly experienced official explained that a key function of the IMF is “to build ownership in a borrowing country. If you manage to create the necessary credibility of the economic team, you have changed a lot.”<sup>92</sup> A line from the IMF’s former deputy managing director, Stanley Fischer, in his farewell address is revealing in this regard. In his comments, Fischer noted that “often we do our job by reinforcing people struggling under enormous pressures to do the

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<sup>90</sup> Woods notes that until very recently the Fund “negotiated exclusively with one small group of officials – those at the head of the Ministry of Finance, Ministry of Planning, Central Bank, or the like” (2006: 77).

<sup>91</sup> The African Executive Director opined that a “coherent and capable policymaking team is essential. It is the most important thing for a program to succeed.” Interview number 9, February 12, 2008 and interview number 12, February 14, 2008.

<sup>92</sup> Executive Director interview number 8, February 12, 2008.

right thing.”<sup>93</sup>

*The IMF and Likeminded Policymakers in Borrowing Governments*

The IMF has a political affinity for policy teams consisting of fellow neoliberal travelers. For the Fund’s staff and management, the institution’s purpose can best be served in settings in which they and the top economic policymakers share a set of core economic ideas.<sup>94</sup> One straightforward reason for the IMF’s bias is that the presence of likeminded officials makes the task of persuading the borrower to carry out difficult reforms relatively easier.<sup>95</sup> Further, in a political environment in which reforms can be easily reversed, the presence of ideationally aligned interlocutors communicates that there are allies within the policy team that can be trusted to follow the Fund’s preferred set of policies.

In the first step of my argument, I contested the view of the Fund as a vessel for the interests of powerful external actors. It is also inaccurate to treat the IMF’s decision making process in isolation from social relations. The level of the Fund’s trust in the policymaking team has important consequences for the institution’s lending activities.

If the IMF could compute the risk that its programs will fail in different settings with a reasonably high degree of accuracy, then its decisions could be made purely on the basis of rational calculation. Consider the decision making process undertaken by organizations that face an environment characterized by calculable risk. The dilemma facing all private lenders is that they cannot be certain that borrowers

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<sup>93</sup> Fischer’s speech was quoted in the *Financial Times*, August 16, 2002: pg. 18.

<sup>94</sup> The nature of the neoliberal ideas held by the Fund’s officials and likeminded authorities is difficult to characterize. For Goldstein and Keohane, there are three types of ideas: worldviews (broad conceptions of possibility and the nature of the world); principled beliefs (“normative ideas that specify criteria for distinguishing right from wrong and just from unjust”); and causal beliefs (ideas about cause-effect relationships) (1993: 8-10; for other attempts to distinguish types of ideas, see Campbell 1998, 2002). Neoliberalism, as defined in this dissertation, involves elements of all three types of ideas: it defines the realm of legitimate economic behavior; it has an important normative content (certain policies are right, while others are unacceptable); and it makes claims about causal relationships.

<sup>95</sup> Woods 2006: 73.

will honor their debts. In the market for personal credit cards, large American banks were able to transform a lending environment marked by uncertainty to one of risk.<sup>96</sup>

Alya Guseva and Akos Rona-Tas suggest that situations of manageable risk are characterized by three conditions: (1) individual events can be grouped among a larger class of instances; (2) events and processes are similar across time; (3) there are a large number of previous events to compare. All three conditions are satisfied in the American credit market; institutions enable private banks to “calculate the chances they take when they extend credit to new customers; they can then factor those probabilities into their prices.” Decisions about extending credit to consumers are routinized and the relationship between consumers and banks in the U.S is “largely disembedded from social relations.”<sup>97</sup>

In the absence of institutions that enable organizations to convert underlying uncertainty into calculable risk, social and political relations become an important part of the decision making process. In the case of the IMF, the ability of the institution’s

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<sup>96</sup> Uncertainty, as conceptualized by the economist Frank Knight, implies that probabilities cannot be attached to an outcome with much accuracy, because our theories are not sufficiently developed or the situation that a decision maker confronts is sufficiently unique. In this study, uncertainty implies that IMF officials cannot accurately forecast the probability that a program will succeed. While individual staff members of the Fund might have a belief about the likelihood of program success (for example, a Division Chief might hazard a guess that a program has a 70 percent chance to work), there is no theoretical or empirical basis for verifying the probability – it is, in essence, just a guessing game. Contrast the IMF’s situation with an example of risk: auto manufacturers can estimate the chance that a car’s brakes will fail after a certain number of miles based on known probabilities of failure under different conditions (climate, traffic patterns, etc.) generated from many repeated tests in a laboratory setting. On the distinction between risk and uncertainty, see Knight 1921: 229; Beckert 1996, 2002; Blyth 2002, 2006, 2007; Elster 1983: 185-207; Keynes 1921, 1936: 162-63; Woll 2008: 8-12. It is interesting to note that according to two eminent economists, “for most of the interesting issues in political and economic markets, uncertainty, not risk, characterizes choice-making” (Denzau and North 1994: 2).

<sup>97</sup> Guseva and Rona-Tas 2001: 626-27. The discussion of risk and uncertainty in this section draws heavily on Guseva and Rona-Tas’s illuminating comparison of the American and Russian credit card markets. The institutional differences between the U.S. and Russia have important consequences for decision making by banks. In the U.S., banks can rely on credit rating agencies that provided standardized information on consumers; the Internal Revenue Service is able to verify income information; and “the American economy’s stability allows for inferences from the past to future.” These institutional prerequisites are absent in Russia; whereas the consumer-bank relationship does not depend on social relations in the U.S., “by contrast, in Russia, trust remains an important part of the lending decision” (2001: 627).

staff and management to calculate the prospects for the success of programs is limited, due in large part to the complexity of the political processes that shape economic policymaking. The IMF has not developed a way to systematically assess the prospects for programs in varying political and institutional environments among borrowing countries. Alexandre Kafka, the long-running Executive Director from Brazil, highlighted the limits of the IMF staff's knowledge of and interest in the vagaries of domestic politics in a statement before the Executive Board in 1978. He stated that "the Fund is in the habit of hiring recent university graduates without any practical experience. However technically competent such people may be...they lack a dimension which is essential in our type of business. This is a sensitivity for political and social realities which in the last analysis define the constraints within which technical considerations can in practice prevail."<sup>98</sup> In a similar vein, Miles Kahler observes that "the institutional memory of the IFIs [International Financial Institutions] regarding the politics of adjustment episodes is very short; there is little systematic attention to collecting or making available to their staffs the political lessons of particular programs."<sup>99</sup>

When the Fund is asked by policymakers in member countries to make its resources available in exchange for policy changes, the prospective borrower is typically experiencing severe economic distress. In unstable (and frequently opaque) situations the Fund's officials face some difficult questions: will the institution's resources be used prudently? Will the reforms be sustainable? Answering these

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<sup>98</sup> Statement by Alexandre Kafka on Upper Credit Tranche Conditionality, EBM/78/79, June 2, 1978.

<sup>99</sup> Kahler 1992: 121. Ngaire Woods suggests that in recent years both the World Bank and the IMF have adopted "the view that they must go beyond ensuring that their counterparts are intellectually convinced about new policies, prepared to initiate reforms, and use their political will to implement new policies and build consensus around them. Each institution has begun to work with and to consider more systematically a wide range of processes within borrowing countries" (2006: 78). The Bank has made much progress in devoting resources to systematic analysis of the politics of lending arrangements than the Fund (but see Ivanova et al 2003 for incipient empirical work by Fund economists on domestic institutions and program implementation).

questions forces the Fund's staff and management to wade into murky political waters. The central contention of the dissertation is that ideas have a powerful effect on how the IMF navigates the politics of conditional lending: *the Fund has greater trust in policymakers who share neoliberal economic beliefs*. Consequently, I expect to observe that the Fund discriminates in its treatment of borrowers in favor of policy teams populated with likeminded officials.

The IMF's brand of politics is elite-centric; the Fund's staff members tend to fixate on the coterie of top-level economic officials in borrowing countries that are primarily responsible for negotiating lending arrangements.<sup>100</sup> The IMF, as an international institution composed of similarly-trained economists, has limited capacity to monitor and evaluate broader political and social conditions in the low- and middle-income member states that form its main constituency. Without the institutional capacity to transform uncertainty over the prospects for lending programs into calculable risk, the Fund makes political choices on the basis of a clear preference for governments that feature fellow neoliberals in positions of influence.

### *Testable Implications*

The analytical framework developed in the previous pages generates a set of testable claims about the IMF's lending activities. The IMF has three basic tools at its disposal: it controls the extensiveness of the conditions that it attaches to its loans, it can increase or decrease the size of its lending packages, and it can suspend programs when borrowers fail to achieve binding conditions or, alternatively, it can choose to

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<sup>100</sup> As illustrated in the case study of Argentina (1976-2001) in chapter 5, and implied by the appearance of IMF officials in Santiago in the months following the military coup in Chile in 1973, the Fund's narrow focus on the top economic leadership has led it to provide generous financial support for regimes that were engaged in serious human rights abuses. Some critics have argued that the Fund prefers to deal with autocratic governments; in my view of the Fund's decision making process, it is more interested in the ideational character of the officials in charge of the program than the type of regime. But this fixation on the policy team can lead to a political insensitivity; radical critics of the Fund in the 1970s seized upon this issue, sometimes portraying the institution as actively seeking to encourage and support right-wing military coups in the developing world (for example, Payer 1974).

waive the missed conditions and allow the borrower to continue to draw on the institution's resources. The argument predicts that the Fund's treatment of governments composed of likeminded officials will be more lenient on all three counts. The conditions that are included in the Letter of Intent signed by the borrowing government and the Fund serve a dual purpose: they are intended to induce beneficial policy changes, and, by making the disbursement of financing contingent on observable policy targets, they are a way to protect the Fund's resources. Borrowers generally want loans with fewer strings attached, because there are political costs to be paid by governments that sign agreements that require sweeping reforms and painful austerity measures.<sup>101</sup> Borrowers also prefer larger lending packages. As explained in the previous section, the IMF is more likely to trust policy teams that contain officials who share neoliberal economic beliefs and will attempt to provide political support for likeminded governments. The Fund believes that placing bets on governments with fellow neoliberal is less risky and would like to support governments that, in the words of Stanley Fischer, are more likely to "do the right thing." Consequently, I expect to find that as the proportion of neoliberals in the borrowing government increase,

- (1) The number of binding conditions in IMF programs will decrease;
- (2) The size of loans will increase.

The IMF also has to make decisions once a program is underway about withdrawing or continuing to support a lending program that has gone off track. Here the differences between my political explanation for IMF lending behavior and an

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<sup>101</sup> Vreeland (2003) describes these as "sovereignty costs." Vreeland argues, however, that reformist governments sometimes lobby for more conditions as a way to bind opposition elements to supporting economic stabilization efforts. If this is the case, I should observe that loans signed by governments with neoliberals contain, on average, more binding conditions. However, the evidence presented in the next chapter suggests that Michael Mussa's claim that low- and middle-income countries almost always prefer weaker conditions ("virtually all members prefer to deal with the sympathetic social worker rather than the tough cop") is correct (2002: 68). The IMF makes a political choice to acquiesce to demands for less extensive conditionality expressed by governments for which the Fund's staff and management have an affinity.



explanation based on the signaling role of neoliberals become clear. The standard approaches to the dilemma faced by private banks and investors emphasize two devices that lenders use to mitigate uncertainty about whether the borrower will honor the loan: (1) *ex ante* screening to select borrowers based on beliefs about the risk of default; (2) *ex post* sanctioning to punish borrowers that fail to repay.<sup>102</sup>

Lenders in sovereign debt markets, for example, may have limited information about a government's willingness and ability to repay (or, in the Fund's case, the willingness of the government to carry out the set of reforms specified in the loans-for-policies bargain). In this view, the presence of neoliberal policymakers in government provides a signal about the government's intentions.<sup>103</sup> If neoliberal policymakers are *ex ante* signaling devices that help the Fund mitigate uncertainty associated with the government's intentions, then we should observe that the likelihood of obtaining a waiver *decreases* as the proportion of neoliberals in government increases.<sup>104</sup> The logic follows Tomz's (2007) discussion of sovereign lending: borrowers that are reputed to be "stalwarts" (unlikely cases for debt repudiation) will be punished by investors for failure to repay regardless of the circumstances under which noncompliance occurred. We would expect to see the same kind of updating by the IMF: neoliberal policy teams that fail to meet specified policy targets communicate information to the Fund's staff and management that the borrower is not trustworthy.

But the political explanation developed above suggests a different expectation about the issuance of waivers. I argued that the IMF maintains a greater degree of trust in governments that contain likeminded officials in top policymaking positions. The

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<sup>102</sup> Guseva and Rona-Tas 2001: 624.

<sup>103</sup> Stiglitz (2000) reviews the development of information economics and discusses the role of signaling.

<sup>104</sup> I thank Tom Pepinsky for bringing this point to my attention.

institution's staff and management believe that the chances for a program's success are greater when fellow neoliberals are in charge. Consequently, the IMF's decision making is politicized: it chooses to support its preferred borrowers with more generous treatment because the Fund would like to ensure that the relationship is sustained. In this view, the IMF is *more* likely to issue waivers for missed conditions to governments dominated by likeminded officials. Policymakers that preside over lending programs that are suspended face real risks of losing office; for example, the IMF's withdrawal of support for the first economic policy team under Argentine President Raul Alfonsin in February 1985 led directly to their removal and replacement with more ideationally sympathetic officials. The logic of my argument suggests a third testable implication: as the proportion of neoliberals in the borrowing government increase,

- (3) The IMF is more likely to issue waivers for countries that fail to observe binding policy targets.

The next chapter focuses on testing these implications using data on a large number of programs concluded between 1980 and 2000.

## **Conclusion**

The central argument in the dissertation hinges on a straightforward observation: in order to understand how the Fund works, we need to understand how the officials that shape the institution's policies think. Most existing research on the Fund has not been concerned with the ideas that shape the institution's purpose; after all, economic ideas are unimportant if the Fund's interests are defined by the geopolitical ambitions of powerful member states or simple budget- and power-maximizing behavior by individual staff members. By overstating the structural constraints on the IMF – which, in my view, are relatively loose – prior empirical research on the institution has omitted an important variable. The degree of ideational

consensus or discord between the Fund and its borrowers matters. In the first step of the argument I showed that during a period in which the institution's role in the world economy was unclear and the environment that the officials confronted was rife with uncertainty, neoliberal economic ideas provided a roadmap to guide the institution.

I am not the first to note that the IMF is dominated by neoliberal economists.<sup>105</sup> But I go beyond the observation that the Fund has a neoliberal purpose shaped by its officials to explore how this claim can help explain an important puzzle: why is there so much variation in the IMF's treatment of its borrowers? I argue that the Fund has an affinity for governments containing likeminded officials. The IMF's political preferences are rooted in the uncertainty that characterizes the lending process: the IMF cannot predict with any calculable certainty whether a program will succeed or fail. Because of this fact the IMF's decision making process cannot be separated from political and social relations in the borrowing countries that seek to make use of its resources. The Fund has to make bets about the prospects that its purpose will be served in various contexts; the staff and management are more likely to trust policymakers that share a core set of economic ideas, and will adjust their treatment accordingly. If my explanation is correct, we should observe that the Fund discriminates in its treatment of borrowers in favor of governments with fellow neoliberals in top economic policy positions. New data allows me to rigorously test this explanation. I turn to an empirical examination of the argument in the following pages.

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<sup>105</sup> Chwioroth 2007c; Woods 2006.

## Chapter 3

### The Determinants of IMF Treatment

In the previous chapter I developed a theoretical framework that emphasized how shared neoliberal economic beliefs among IMF staff members and economic officials influence the IMF's treatment of its borrowers. Several testable implications emerged from the theory: when dealing with governments with sympathetic policymakers, the IMF is more likely to (1) give larger loans, (2) apply less onerous conditionality to the terms of loans, and (3) issue waivers for borrowers that fail to comply with binding conditions.

This chapter focuses on testing my explanation against its alternatives on a sample consisting of nearly every conditional IMF loan signed between 1980 and 2000. The analysis proceeds in steps. First, I describe the construction of cross-national time series data on the treatment of borrowers and the presence of neoliberal policymakers. I then briefly review the alternative explanations and discuss the variables included in the statistical models before explaining the methodology employed to test the argument. The chapter concludes with a discussion of the findings. The evidence presented in this chapter provides strong support for my explanation of variation in IMF treatment.

#### **Measuring Variation in IMF Treatment**

The IMF performs a number of different activities in the world economy aside from conditional lending, including “surveillance” of member states’ economies through its Article IV consultations, gathering and disseminating economic data, and making macroeconomic projections and policy recommendations via its *World Economic Outlook* publication, among numerous other functions.<sup>1</sup> Conditional lending is, however, the main avenue through which the institution has exerted

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<sup>1</sup> See Pauly 1997.

influence in the developing world. Conditionality is also the most controversial aspect of the Fund's activities: in requiring borrowers to make policy changes in order to receive disbursements, the IMF's lending programs often force borrowing governments to make difficult choices. Violent anti-IMF protests in Peru, Jordan, Indonesia, Morocco, the Dominican Republic, and Sudan (among others) at various points over the past thirty years are evidence that the political stakes are high for borrowers.<sup>2</sup> Given that conditionality can have important political (in addition to economic) consequences, it is important to explore the sources of variation in conditionality.

Identifying the determinants of conditionality requires a method for comparing the conditions included in different agreements. Ideally, a measure of conditionality would be able to assess the "toughness" of individual conditions. A relatively easy program, for example, would offer a large amount of funding while requiring only minor policy changes. Tougher conditions imply greater distance between the performance on an economic indicator in the period leading up to the agreement and the performance required at some future date. As the distances between economic conditions at time  $t$  and macroeconomic targets at time  $t + 1$  increase, governments face tougher choices, and, consequently, the political risks for policymakers increase.

Four problems make the ideal measure unattainable in practice. First, the heterogeneity of programs makes it difficult to settle on a common set of conditions to compare across cases. The Fund does apply a general economic model to its programs, but within that framework there is significant space for country-specific conditions to be included. Second, "structural" conditions involving changes in economic policies and structures are frequently the most controversial and onerous aspects of lending

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<sup>2</sup> On the IMF and political instability, see Auvinen 1996; Bienen and Gersovitz 1985; Franklin 1997; Haggard 1988; Siddell 1988; Walton and Ragin 1990.

programs.<sup>3</sup> There is no way to quantify and compare country-specific structural conditions, and omitting these important conditions from the analysis would be a mistake. A third obstacle is that agreements contain different deadlines for targets to be met; for example, one program might specify a target for the level of international reserves to be achieved in three months, while another may set a target for 10 months after the date of agreement. The ideal approach also elides data problems that plague the setting of quantitative conditions. Quantitative targets (for money growth, reserves, government borrowing, budgets, etc) are based on data provided by the government, which is frequently faulty; consequently, the targets are revised after the initial agreement is signed.<sup>4</sup>

Scholars of the international financial institutions have handled the measurement issue by adding up the total number of binding conditions in loan agreements. The counting approach is an imperfect but defensible way of comparing the content of different programs. Paul Mosley, who first employed the technique in an analysis of World Bank lending, argues that programs with more conditions are “politically and administratively most demanding.”<sup>5</sup> It becomes more challenging for a borrower to carry out a program as binding conditions accumulate. Increasing the number of conditions implies a higher probability that a program will go off track; consequently, it is reasonable to regard programs with more conditions as comparatively more difficult. While the counting approach cannot account for the toughness of individual conditions, the number of conditions included in an agreement is frequently the major point of contention in loan negotiations. The counting approach

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<sup>3</sup> As one of many examples, the main sticking point in negotiations between the IMF and Jamaica in the mid-1980s was the inclusion of devaluation as a binding condition (Nelson, 1990: 194).

<sup>4</sup> See Easterly 2006. It should also be noted that the data that form the basis for quantitative conditions are sometimes intentionally falsified by governments; examples include falsification of data by the central bank in the Ukraine in the 1990s (see Stone 2002: 205-206) and, more recently, evidence that officials in Kazakhstan manipulated data on foreign reserves.

<sup>5</sup> Mosley et al 1991: 125; also quoted in Kahler 1992: 108. See also Mosley 1988.

enables researchers to conduct systematic empirical tests of competing explanations across the universe of IMF agreements. In my view the benefit vastly outweighs any costs of a less than ideal measure of conditionality.<sup>6</sup>

How much variation in IMF conditionality do we observe? As previously noted, answering this question in a systematic fashion was impossible until the IMF opened its archives to external researchers. Informal attempts to describe the relative toughness of programs indicated a considerable degree of variation.<sup>7</sup> These suspicions receive confirmation in more recent work that systematically explores the extent of conditionality in IMF programs.<sup>8</sup> However, the conclusions we can draw about the degree (to say nothing of the determinants) of variation in conditionality are limited by the irregular sampling methods used in the research. Researchers have employed samples based on different sets of countries and time periods and have pursued unique ways of counting conditions.<sup>9</sup> It is not surprising, given the disorganized state of recent empirical research, that there is no consensus on the determinants of conditionality in IMF agreements.

I attempt to develop a better measure of conditionality in this chapter. The documents submitted by the staff and country officials to the Executive Board (the Letter of Intent and Memorandum of Understanding) outline the terms of the agreement, including the size of the loan, the phasing of disbursements, binding and non-binding conditions, and policy commitments and goals set out by the country's

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<sup>6</sup> To quote Bearce and Bondanella (themselves paraphrasing Voltaire): "it is foolish to let the perfect stand in the way of the good" (2007: 705).

<sup>7</sup> For example, Kahler 1992; Stiles 1991

<sup>8</sup> Copelovitch 2004; Dreher and Jensen 2007; Dreher and Vaubel 2004; Gould 2003, 2006;

<sup>9</sup> I briefly mentioned in footnote 19 in the introductory chapter that recent attempts to systematically code IMF conditionality have been incomplete. Gould (2003, 2006), for example, examines the number of conditions in a sample of 249 agreements from 20 countries between 1952 and 1995; Copelovitch (2004) only considers short-term Standby Agreements from 47 countries between 1984 and 2003; Dreher and Jensen (2007) code 206 agreements between 1997 and 2003 that were posted on the IMF's website; Kang (2007) infers the number conditions from agreements described in the *IMF Survey* (1983-1997); Stone (2008) draws on a proprietary IMF database of agreements signed between 1992 and 2002.

economic authorities. I collected these documents from the IMF's archives for nearly every high-conditionality agreement signed between 1980 and 2000.<sup>10</sup> The texts of typical IMF arrangements contain lengthy descriptions of policy commitments and targets that the government intends to implement; sometimes these commitments are codified in the agreement as "indicative targets" or "benchmarks" that are monitored by Fund staff but do not trigger a suspension or cancellation of the program if violated.<sup>11</sup> Many agreements include a description of actions that the government carried out (or promises to carry out) prior to the acceptance by the IMF's Board and management of the terms of the arrangement. However, it is unclear whether prior actions were required by the Fund or were autonomously taken by the government as a signal of its commitment; regardless, the precise terms of prior actions are not specified in agreements signed before 2000.

Rather than include all aspects of conditionality, I focus on the number of binding conditions (referred to in Fund parlance as *performance criteria*).<sup>12</sup> Unlike the other types of conditionality noted in the previous paragraph, these are the conditions with teeth: violating a performance criterion will trigger the suspension of the program, unless a country can obtain a waiver for noncompliance from the Executive Board. In addition, performance criteria are unambiguously spelled out in the texts of IMF agreements.

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<sup>10</sup> I state "nearly" because a handful of agreements have not been released to the archives by the country's representatives. For example, the texts of Turkey's 1999 agreement and Brazil's 1998 SBA were unavailable at the time that I gathered the agreements from the Fund's archives. By "high-conditionality agreements" I refer to loans that are larger than 25 percent of a country's quota. Agreements within the "first credit tranche" (smaller than 25 percent of quota) are typically not subject to conditionality. The dataset includes each of the conditional lending facilities: Standby Arrangements (SBA), Extended Fund Facilities (EFF), Structural Adjustment Fund (SAF), Enhanced Structural Adjustment Fund (ESAF), and Poverty Reduction and Growth Facility (PRGF).

<sup>11</sup> The IMF does have some enforcement power with respect to indicative targets and structural benchmarks: management sometimes delays program reviews that are necessary for disbursements to be released. However, this is irregularly enforced, and, unlike performance criteria, there is no legal basis in the Fund for suspension of a program when benchmarks are missed.

<sup>12</sup> I use the terms "performance criteria" and "binding conditions" interchangeably throughout the dissertation.



Binding conditions encompass a wide range of different policy areas, including fiscal and monetary targets and structural conditions related to economic liberalization and rationalization (dismantling of tariffs and restrictive trade practices, reduction/elimination of subsidies, privatization of state-owned enterprises, financial market liberalization, civil service reform, etc).<sup>13</sup> The data collection effort yielded the most comprehensive extant dataset on IMF conditionality, consisting of the terms from 503 separate agreements between 1980 and 2000.<sup>14</sup>

Descriptive statistics from the conditionality dataset are presented in the figures below. The first figure illustrates the average number of total performance criteria and the average number of structural performance criteria in IMF programs over the two decades between 1980 and 2000.<sup>15</sup>

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<sup>13</sup> I categorized each of the binding conditions in the agreements in one of 54 separate categories, drawing on Gould's (2006) initial categorization scheme.

<sup>14</sup> I selected the decades between 1980 and 2000 as the time frame for the data analysis for two primary reasons: (1) the IMF's general approach to conditional lending in the developing world was solidified after the 1979 review of conditionality; (2) the period between the debt crises of the early 1980s and financial crises of the late 1990s marks the era of the IMF's most sustained and active involvement in developing countries through its lending facilities.

<sup>15</sup> The IMF identifies 14 sectors of the economy subject to structural conditions: the exchange system; trade regime; capital account; pricing and marketing; public enterprises reform and restructuring; privatization; fiscal sector; social security system; social safety net; financial sector; agricultural sector; labor market; economic statistics and reporting; and "systemic reforms." The most common structural conditions are (in order of frequency) in the fiscal sector, the trade regime and exchange system, and financial sector; the least common are the capital account and social safety (each accounting for around one percent of total structural conditions between 1987 and 1999). Memorandum to the Executive Board, "Conditionality in Fund-Supported Programs – Overview," SM/01/60, February 20, 2001.

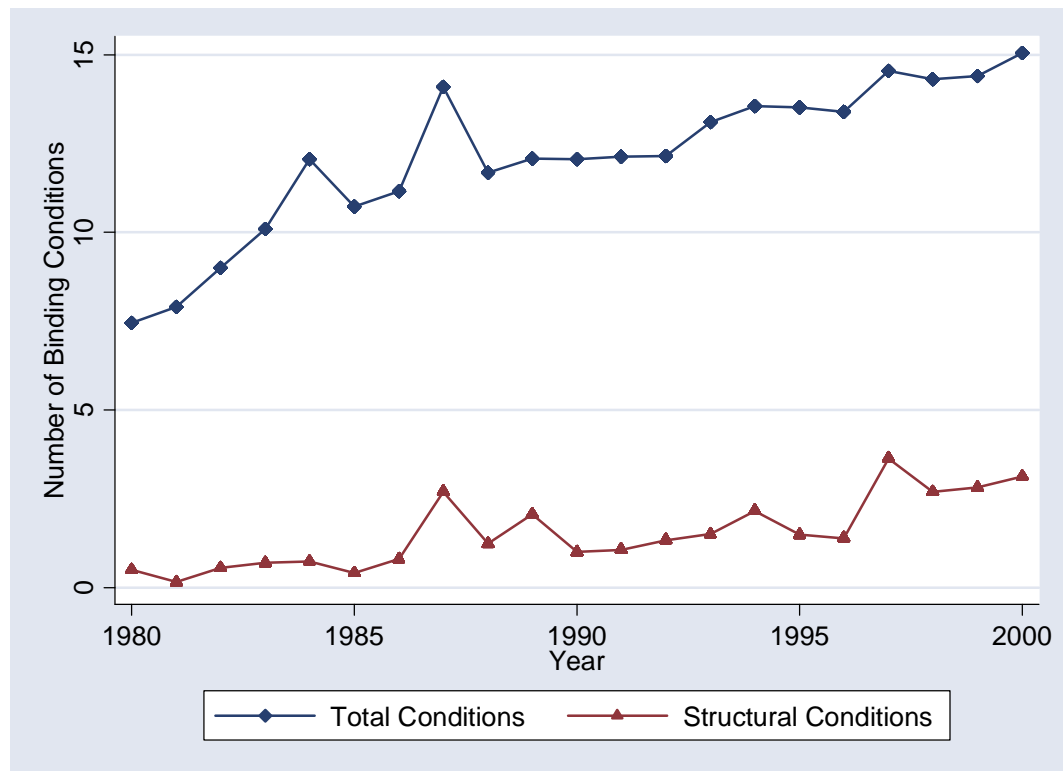


Figure 3.1: Avg. Number of Binding and Structural Binding Conditions, 1980-2000

Figure 3.1 is notable for evidence of the steady increase in conditionality over time. The average program contained between 7 and 8 conditions in 1980; by 2000, the average number of conditions had increased to 15. The pattern for structural conditionality, while less dramatic, follows the general upward trend in conditions per program.<sup>16</sup> However, averaging across countries obscures substantial variation in the number of conditions included in different programs. Figure 3.2 provides an alternate view of the evolution of conditionality through a time series of annual boxplots of the number of performance criteria in IMF programs. In figure 3.2 the bottom of each box is formed by the lower (25<sup>th</sup>) percentile, the mid-line of each box is the median (50<sup>th</sup>) percentile, and the top of the box is the upper (75<sup>th</sup>) percentile in terms of the

<sup>16</sup> It is notable that the increase in conditionality evoked criticism from within the IMF. In an attempt to reduce the number of conditions in lending programs, in 2002 the Executive Board approved new Conditionality Guidelines that emphasize the inclusion of only those conditions that are “critical” to the program’s success. See International Monetary Fund, *Guidelines on Conditionality* (Washington, DC: 2002).

distribution of conditionality in the agreements signed each year. The plot also displays the upper and lower bounds of the data, as well as outlying agreements (represented by the solid dots).<sup>17</sup> Here the upward trend in conditionality is less remarkable than the wide variation in the design of programs in each year.

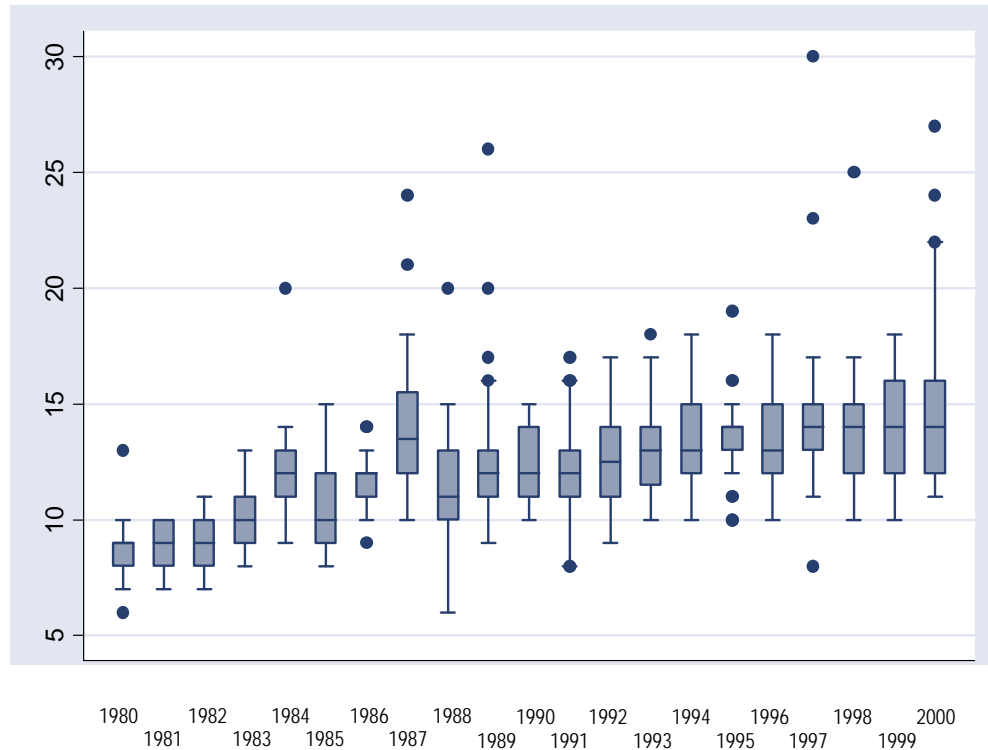


Figure 3.2: Time Series of Boxplots of Annual Binding Conditions, 1980-2000

Figure 3.3 displays a frequency distribution of the number of conditions in the 503 programs included in the conditionality dataset. The most common number of binding conditions is 12 (accounting for 18 percent of all programs in the dataset), but the distribution of conditionality is surprisingly expansive, with a number of programs containing many fewer and many more conditions than the modal program.

<sup>17</sup> Outlying agreements above the boxes are defined as observations that are greater than 1.5 times the interquartile range (the 75<sup>th</sup> percentile minus the 25<sup>th</sup> percentile); the dots below the boxes are observations that are smaller than 1.5 times the interquartile range.

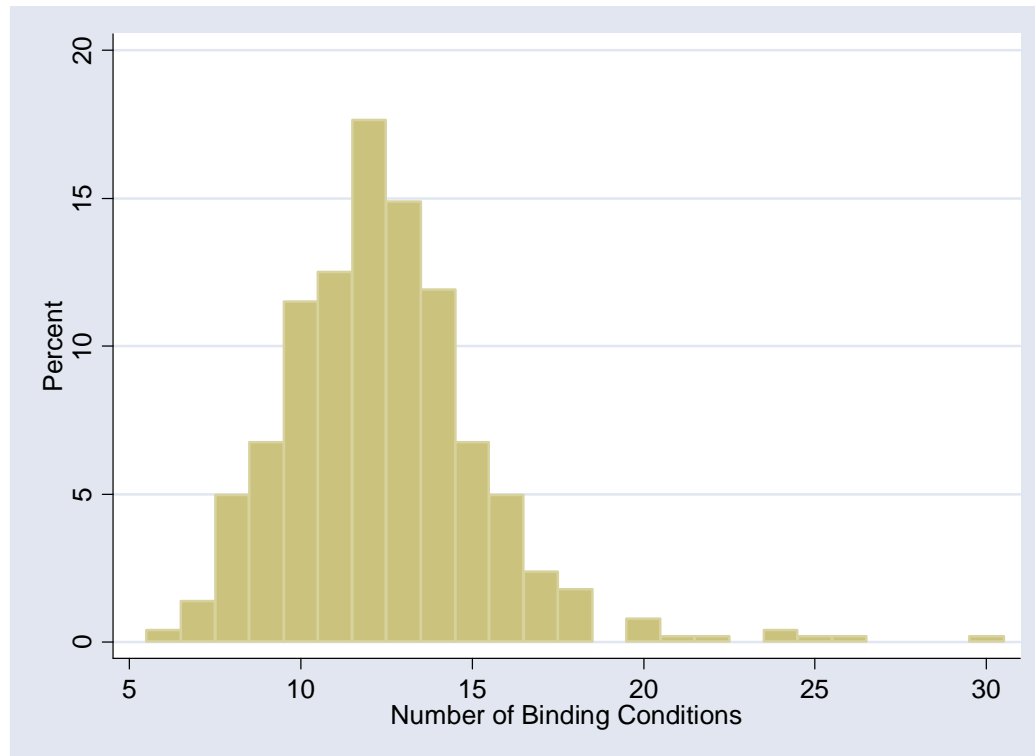


Figure 3.3: Distribution of Binding Conditions, 1980-2000

Conditionality is not the only instrument at the IMF’s disposal. The Fund also controls a large pool funding that can be drawn on by borrowers for balance of payments support. Officially, the underlying condition for the use of IMF resources is that a country must have a demonstrated “need because of its balance of payments or its reserve position or developments in its reserves.”<sup>18</sup> A country’s “need” is a vague and malleable concept, and, as Vreeland (2003) demonstrates, some borrowers have drawn when reserves were plentiful. There is built-in ambiguity in the Fund’s approach to organizing loans: a member is required to represent that it has a need for IMF resources, but the institution cannot challenge its claim.<sup>19</sup> IMF drawings are

<sup>18</sup> Article V, section 3(b)(ii) of the Articles of Agreement. It should be noted that the resources for Standby and Extended Fund Facility agreements come from the Fund’s general resources, while funds for the SAF/ESAF/PRGF facilities for low-income countries come from concessional sources and are intended for countries experiencing “protracted balance of payments problems.”

<sup>19</sup> The Fund has a remedial sanction against misrepresentation of need: if it discovers after a disbursement has been approved that the purchase was unnecessary, it can impose a limit on future drawings or declare a borrower ineligible for future purchases from the institution’s general

officially limited to 100 percent of a country's quota<sup>20</sup>, but this limit is commonly waived by the Executive Board. The flexibility of rules governing access to Fund resources and guidelines for the size of drawings means that variation in the size of lending packages is more dramatic than variation in the extent of conditionality: the size of loans in the conditionality dataset varies between a minimum of 14 percent of quota to a maximum of just over 1,500 percent. Figure 3.4 illustrates the range of the size of IMF loans over time.

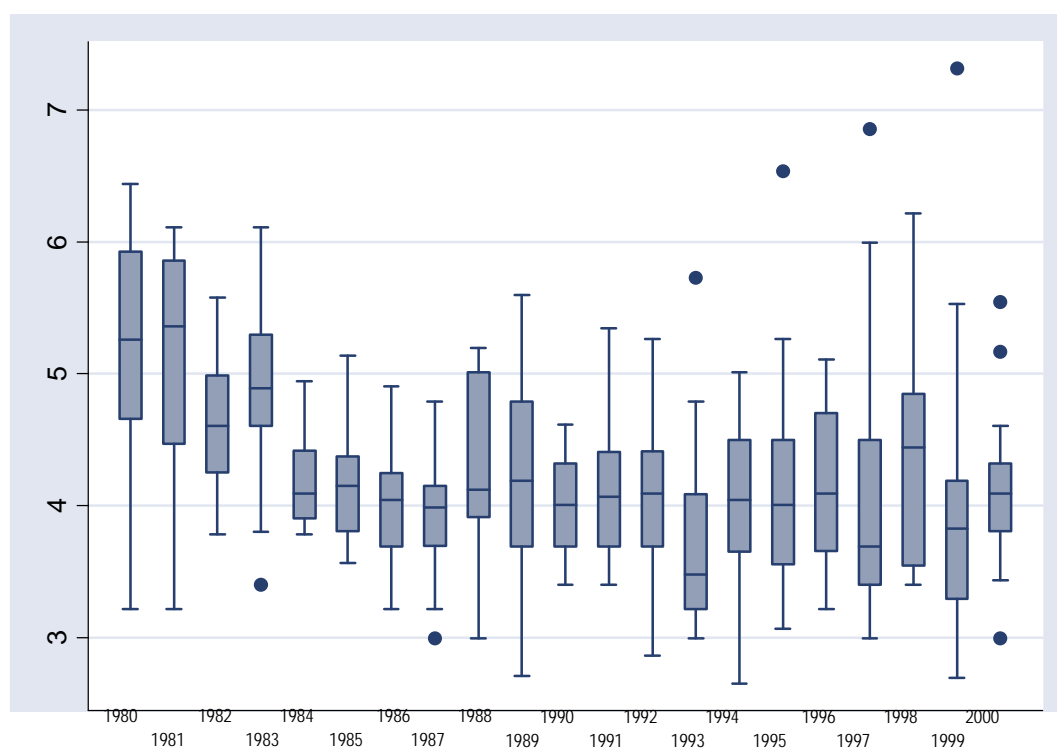


Figure 3.4: Boxplots of Loan Size (Logged), 1980-2000

The third instrument possessed by the Fund is the ability to sanction borrowers that fail to comply with binding conditions. A government that misses the targets spelled out in performance criteria may find its program suspended: the schedule of

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resources.emorandum to the Executive Board, "Need as a Condition for the Use of Fund Resources," SM/94/299, December 16, 1994.

<sup>20</sup> Article V, section 3(b)(iii) of the Articles of Agreement.

drawings specified at the outset of the program is delayed until the indicators can be brought in line with the targets or the original criteria are modified. If deviations from the program are severe, the agreement might be cancelled by the Fund. As is the case for conditionality and the size of lending packages, institutional flexibility leads to unexplained variation in the Fund's treatment of noncompliant borrowers.

Enforcement of binding conditions is uneven because governments can obtain *waivers* for missed targets that allow drawings to continue without interruption.<sup>21</sup>

Records of waivers were unavailable to external researchers prior to the opening of the archives. Consequently, scholars relied on two indirect measures of enforcement. First, by comparing the proportion of funding actually drawn to amount agreed at the outset of the program, investigators inferred whether the program was cut off by Fund officials.<sup>22</sup> This approach assumes that any country which did not draw 100 percent of the loan was punished for noncompliance. The other approach compares the schedule of planned disbursements to the observed pattern of disbursements, assuming that gaps indicate punishment intervals by the IMF for noncompliance.<sup>23</sup>

Both measures are problematic because they cannot differentiate between programs that were legitimately suspended for noncompliance and programs that were concluded early by country officials that simply did not want or need the program.<sup>24</sup> I

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<sup>21</sup> The staff, management, and country representatives within the IMF rely on their discretion in supporting and approving requests for waivers. Interviews indicate that the Fund is cautious with respect to waivers. A European Executive Director emphasized the risks he takes when recommending waivers for countries in his constituency. Supporting the continuation of a program that proves to be untenable erodes his credibility with other Executive Directors and, most importantly, the upper-level management; in his words, "the most important role of the Executive Director is to be credible for the Managing Director...to be able to say 'yes, you can take that risk, these people are serious.'" Executive Director interview number 7 (February 7, 2008).

<sup>22</sup> Killick 1995 pioneered this approach, which is critically examined in Vreeland 2006: 364-65.

<sup>23</sup> Edwards 2005; Stone 2002, 2004.

<sup>24</sup> Stone 2002 tries to avoid this problem by using evidence from interviews and press reports to confirm that programs were suspended for noncompliance. Stone, however, did not have access to archival materials for his work, and thus admits that "a considerable amount of uncertainty remains in the measurement" of punishment intervals. Internal reviews of the enforcement of conditionality

avoid this problem in my construction of a measure of enforcement by relying on newly available records of the issuance of waivers. I recovered from the Fund's archives a complete record of the decisions by the Executive Board to approve waivers for noncompliance between 1980 and 1997.<sup>25</sup> The Board's decisions are used to construct a new, behavioral indicator of IMF treatment that improves upon the previous efforts that relied on outcomes to infer the variation in enforcement.

## **Data and Methods**

Up to this point the chapter has focused on the construction of the three measures of IMF treatment. In the next sections I turn to testing the explanations of variation in IMF treatment of borrowers. I describe the variables and methodology employed in the analysis before moving to a discussion of the main findings.

### *Dependent Variables*

Recall that the empirical analysis is organized around three testable implications: as the proportion of neoliberals policymakers in government increases, the IMF's loans will be (1) more generous, (2) less onerous in terms of conditionality, and (3) the institution will be more lenient with respect to enforcement. Generosity is measured as the size of the loan as a percent of the country's quota.<sup>26</sup> Because these data are skewed to the right by some extremely large loans, I use the natural log of loan size/quota. Conditionality is measured as the number of binding conditions in an agreement. Conditions that require major structural changes are often treated as more difficult for governments to carry out; to provide an additional test of the argument, I

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demonstrate that it is essential for researchers to use Fund documents to confirm that programs were suspended by the IMF and not allowed to lapse for other reason. In a review of program implementation staff members describe a gap in Uganda's programs in the mid-1990s as a result of "continued commitment to reform and strong performance." A coarse measure of enforcement would mistakenly infer that Uganda was being punished at the time for noncompliance. Staff Memorandum for the Executive Board, "Review of Studies under ESAF-Supported Arrangements – Staff Studies, Volume 2," EBS/97/112 Supplement 2, July 7, 1997.

<sup>25</sup> The 10-year moving wall for Executive Board decisions explains the end date for the waivers data.

<sup>26</sup> Both the size of the loan and the quota are measured in millions of SDRs (standard drawing rights, the IMF's unit of account).

construct a dependent variable that counts the number of structural performance criteria in each agreement.<sup>27</sup> The average number of conditions in the sample is just over 12; the average number of structural conditions in agreements signed between 1980 and 2000 is one and a half.

The measure of enforcement is a dichotomous variable that takes a value of one when a waiver is approved by the Executive Board, and zero during other years when a program is active and a waiver has not been issued. To distinguish waivers for minor slippages from more substantial noncompliance that goes unpunished, I construct a second variable that takes the value of one only if waivers for *multiple* binding conditions are issued in a single decision by the Fund's Executive Board. This is a stricter test of the argument: waivers are issued in 19 percent of observations in which countries are under IMF programs and thus "at risk" of receiving a waiver; less than 9 percent of the sample is coded positively for the tougher measure of multiple waivers.<sup>28</sup>

### *Explanatory Variables*

Below I describe the explanatory variables in the analysis. The section is structured so that each variable's inclusion is justified within the different theoretical frameworks outlined in the previous chapter. I describe the indicators I use to account for the most prominent explanations of IMF behavior, starting with the construction of the variable to measure the extent of neoliberal influence within the borrowing government. More details on the measurement and sources for the variables are found in appendix A.

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<sup>27</sup> See footnote 15 in this chapter for the IMF's list of structural areas of the economy that are subject to conditionality.

<sup>28</sup> As noted in the previous paragraphs, measuring enforcement of conditionality is difficult, and my measure, while an improvement over other attempts, is imperfect. Ideally, I could compare the probability that waivers are requested/needed to the probability that waivers are granted. However, records of requests for waivers are unavailable; researchers can only observe whether a waiver is approved.



*Ideational Explanation:* In order to test my argument against the alternatives, it is necessary to develop a variable that captures the economic ideas held by policymakers. Ideally one could survey policymakers to gauge their support for neoliberal economic beliefs shared by the majority of the staff members at the IMF. The enormous costs and complexities involved in surveying the beliefs of thousands of policymakers in the developing world during the period in my study require an alternative approach. The strategy adopted here focuses on experiences that are likely to transmit neoliberal economic beliefs to individual economic policymakers. Two socializing experiences are regarded as particularly important transmission mechanisms.

The first is the educational background of policymakers. A number of researchers provide evidence that graduate training in economics “is a transformative experience for doctoral students that creates strong professional identities.”<sup>29</sup> David Colander and co-authors conducted surveys of graduate students at top departments between the mid-1980s and early-2000s, finding that training in economics has a powerful assimilating effect on students.<sup>30</sup> It would be inaccurate to treat the economic beliefs imparted by major departments as constant across all universities, but research demonstrates a remarkable degree of convergence on *fundamental* aspects of the economic worldview.<sup>31</sup> Economics departments do not reproduce automatons, but the evidence suggests that they do impart a lasting set of broadly neoliberal beliefs to their trainees. Marion Fourcade, in a sociological study of the globalization of the

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<sup>29</sup> Kogut and Macpherson 2008: 114. See Chwioroth 2007a, 2007c; Fourcade 2006, 2009.

<sup>30</sup> Reflecting on this research, Colander writes that “the replicator dynamics of graduate school play a larger role in determining economists’ methodology and approach than all the myriad papers written about methodology” (2005: 175). See Colander and Klammer 1987; Colander and Brenner 1992; Colander 2005; Klammer and Colander 1991; Fourcade 2009.

<sup>31</sup> For example, graduates from the University of Chicago are more rigidly pro-market and anti-intervention than colleagues at Harvard and MIT. See Kogut and Macpherson 2008: 114; Colander and Klammer, 1987; Colander 2005.

economics discipline, argues that “the universalism of economic knowledge” produces “*relative* consensus... on basic economic policy prescriptions.”<sup>32</sup>

The other important sites for the socialization of individual policymakers are international institutions. Recent work demonstrates that international institutions promote the socialization of state actors into the norms, rules, and beliefs embedded in the institution.<sup>33</sup> When international institutions are dominated by a single profession or discipline such as economics, the socializing effect is particularly strong. Policymakers that have significant experience working within an international institution can be expected to internalize the dominant beliefs shared by the institution’s officials. As Finnemore and Sikkink write, “professional training does more than simply transfer technical knowledge; it actively socializes people to value certain things above others.”<sup>34</sup>

I have argued that academic departments and international institutions are good places to look for socialization. However, beliefs must be widely held in these environments for socialization to be meaningful. Within the realms of academia and the international institutions, which departments and institutions are most likely to transmit neoliberal beliefs?

It is widely recognized that mainstream American economics departments shaped the neoliberal consensus. Consequently, I code a policymaker as a neoliberal if she earned a masters degree or above from a highly-ranked American economics

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<sup>32</sup> Fourcade 2006: 161. Fourcade argues further, in a rich comparative study of the economics profession in the United States, Britain, and France, that “[American] graduate training tends to be homogenous across higher education institutions, even though differences in style or clearly perceptible. As a result, an economics doctorate is a general certification mechanism for academic as well as nonacademic jobs” (2009: 73).

<sup>33</sup> For example, Checkel 2005; Risse, Ropp, and Sikkink 1999. This research is generally focused on the socialization of individual actors, but Bearce and Bondanella (2007) find that membership in inter-governmental organizations leads to a convergence of interests at the level of the nation-state.

<sup>34</sup> Finnemore and Sikkink 1998: 905 (also quoted in Chwieroth 2007b: 9).

department.<sup>35</sup> This approach assumes a broad consensus within the discipline around a basic set of neoliberal beliefs; because faculty at prestigious departments publish in journals such as the *American Economic Review*, *Quarterly Journal of Economics*, *Review of Economic Studies*, and *Journal of Political Economy* that primarily publishes research that is foundationally neoclassical, it is reasonable to expect that the top programs are relatively intellectually consistent.<sup>36</sup>

Policymakers that have sustained experience within the IMF and the World Bank are also coded as neoliberal.<sup>37</sup> I have already demonstrated the extent to which neoliberal economists diffused within the upper-level management of the Fund; while American-trained economists are a less dominant presence in the World Bank, owing largely to the Bank's more expansive mandate in developing countries, it too remains

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<sup>35</sup> I am aware of only one other effort to code the educational backgrounds of a large sample of policymakers. Chwioroth 2007 looks at policymakers in 29 countries between 1977 and 1999, which is a considerably smaller sample than the one I collected for this study. Chwioroth also makes some questionable coding choices. He records finance ministers and central bank chiefs as neoliberal if they earned a PhD from one of the top ten economics departments, defined in terms of publication frequency in the *American Economic Review*. Chwioroth's restrictive approach excludes some well-known neoliberals. For example, Miguel Mancera, Mexico's central bank governor between 1982 and 1997, only obtained an MA in economics from Yale – in Chwioroth's approach, Mancera would not be coded as a neoliberal. Similarly, Leslie Delatour, a Haitian finance minister whose “radical ‘free-market’ economic policies helped transform him into a national demon soon after his appointment in April 1986” did not complete his dissertation at the University of Chicago (*New York Times Magazine*, June 21, 1987). According to Chwioroth's criteria, Delatour does not have neoliberal beliefs because he never defended the dissertation.

<sup>36</sup> I code policymakers that earned advanced degrees from top-30 ranked economics departments as neoliberal. Rankings are inherently subjective and their construction is controversial. I argue that my approach is defensible because it casts a wide net by including all of the major departments; consequently, it is less prone to including/excluding departments because of the ranking criteria (publication records, surveys, etc.) employed by the analyst. My strategy for selecting the top departments was to compare a large number of different rankings over the past thirty years – the approach showed that while the ranking of different departments can vary widely in terms of placement on the list, there is consistency in terms of the universities that are ranked *somewhere* within the top 30 over time and across rankings. I surveyed a number of rankings of economics departments in the U.S.; see Davis and Papanek 1984; Dusansky and Vernon 1998; Graves et al 1982; Hirsch et al 1984; Hogan 1984; Scott and Mitias 1996.

<sup>37</sup> By sustained experience I refer to employment in either of the institutions in Washington DC in a position involved in the day-to-day operations of the institution. It is important to make this distinction because many policymakers are appointed as their country's representative on the IMF's Board of Governors, which only meets once per year. These fleeting, mainly symbolic experiences with the institutions are unlikely to have the kind of socializing effect that deep involvement in the institution as a staff member, advisor, or Executive Director imparts.

a center for neoliberal thinking.<sup>38</sup>

The key explanatory variable in the analysis (*Proportion Neoliberal*) is constructed by recording the proportion of the economic policymaking team that holds neoliberal beliefs. This measure ranges from 0 (no neoliberal policymakers) to 1 (a unified neoliberal policy team).<sup>39</sup> It is important to consider the ideational coherence of the policymaking team because strong divisions within the government enervate the potential impact of neoliberals on policy outcomes. For example, in Joan Nelson's edited volume on policy adjustment in the 1980s, reform programs failed in a number of countries, in part because economic policymakers with dissimilar beliefs pursued contradictory agendas.<sup>40</sup> The IMF is more likely to perceive a program as credible if neoliberal ideas are shared among the important policymakers; governments that are divided between sympathetic and skeptical officials will be viewed with suspicion by the Fund's staff and management. To identify the important policymakers, I turned to the IMF's own documents. The Letter of Intent specifying the terms of the agreement is signed by the major economic officials in the country; from the documents I am able to identify the key economic policymakers in each country.<sup>41</sup> Because the executive has the ultimate authority over policymaking, the economic policy team is composed in the analysis by the signatories to the agreement (usually finance minister and central bank head) and the chief of government. Ideologically unified policy teams are very infrequent but do exist: for example, all three of the key economic policymakers

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<sup>38</sup> A 1991 World Bank survey of employment in the Policy, Research, and External Affairs departments revealed that 80 percent of senior staff received their training in economics departments in either the U.S. or the UK (Woods 2006: 53).

<sup>39</sup> I experimented with a number of different measures of the presence of neoliberals before settling on the indicator described in this section. The findings reported in the analysis are attenuated but generally robust to different specifications of the *neoliberal* variable, including a dummy indicating the presence of a neoliberal in the government, a measure that only counts the finance minister and central bank governor, and a broader measure of neoliberals that includes training in any American economics department.

<sup>40</sup> See Nelson 1990: 339-40.

<sup>41</sup> The majority of programs are signed by the finance minister and central bank governor, although in other countries the planning minister, prime minister, or special economic advisor is a signatory.

responsible for Mexico's 1995 Standby agreement were neoliberals.<sup>42</sup>

The dates of entry and exit from office for policymakers were mainly collected from two sources: the CIA's *Chiefs of State and Cabinet Members of Foreign Governments* and *Keesings Record of World Events*. The data were supplemented (and precise dates were confirmed) with additional records of entry and exit dates from the archives of the *BBC Summary of World Broadcasts*, *Financial Times*, *New York Times*, and, in some cases, from direct correspondence with finance ministries and central banks. The data collection resulted in a complete record of the entry and exit dates for over 2,000 policymakers in 90 countries observed between 1980 and 2000. I relied on several different sources to gather background information for policymaker, including Proquest's *Digital Dissertations* database, Gale's *Biography Resource Center*, *International Who's Who*, *The Statesman's Yearbook*, *Who's Who in International Organizations*, and numerous country- and region-specific editions of *Who's Who*.<sup>43</sup>

*Technocratic Variables:* If technocratic considerations dominate the design of IMF programs, treatment by the Fund should be proportional to the depth of the economic problems that the borrower faces. The analysis includes two indicators of the severity of the external economic constraints: international reserves as a percentage of external debt and debt as a percent of gross national income (GNI). I also include measures for the growth rate of GDP per capita and the natural log of GDP. Economic problems in large countries are more threatening to global economic

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<sup>42</sup> Finance minister Guillermo Ortiz has a PhD from Stanford; central bank governor Mancera has an MA from Yale; President Zedillo earned his PhD in economics from Yale. A number of executives in Latin America earned advanced degrees in economics, including Miguel Rodríguez Echeverría in Costa Rica (PhD, Berkeley), Ricardo Lagos Escobar in Chile (PhD, Duke), Ernesto Samper Pizano in Colombia (PhD candidate, Columbia), and Alvaro Magaña in El Salvador (MA, Chicago).

<sup>43</sup> Some finance ministries and central banks provide biographical information on their websites. I also obtained digital records of the *American Economic Review's* membership survey. Because the background information was generated from a wide range of sources, I made sure to cross-check the coding against multiple sources to ensure consistency.

stability, so the IMF is likely to treat economically important countries more generously, with fewer conditions, bigger loans, and weaker enforcement.

I add several economic variables to the specific models of different aspects of IMF treatment. Structural performance criteria are less likely to be included in agreements with countries that have already pursued a broad program of economic liberalization. Unfortunately, reliable cross-national measures of different aspects of economic liberalization are not available. I use the variable *openness*, a dichotomous measure of trade liberalization first developed by Sachs and Warner and improved and updated by Wacziarg and Welch.<sup>44</sup> Research has linked compliance with binding conditions to inflation and government consumption; consequently, these measures are included in the models of waivers.<sup>45</sup>

*Intra-Institutional Variables:* Intra-organizational politics and routines are expected to influence the behavior of the IMF. Barnett and Finnemore suggest that the expansion of conditionality is a consequence of the IMF's progressive elaboration of the monetary approach to balance of payments crises "to incorporate more and more aspects of domestic life into its stabilization programs."<sup>46</sup> I use a simple counter variable that starts at zero in 1980 to account for bureaucratic expansion.

The public choice approach to IMF lending suggests two additional variables.<sup>47</sup> As global financial conditions worsen, the interest rate subsidy provided by the Fund (since interest on Fund loans is below world rates) becomes more attractive, enabling the staff to increase both lending and conditionality. The Fund should be tougher in enforcing conditions when alternative sources of funding for

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<sup>44</sup> Sachs and Warner 1995; Wacziarg and Welch 2003, 2008.

<sup>45</sup> Stone 2002; Pop-Eleches 2003. Domestic credit creation and budget outlays are typical targets that, if exceeded, would force a program off course if a government could not obtain a waiver. I use the measures of inflation and government consumption in their place because data on domestic credit and budgeting are unavailable for many countries.

<sup>46</sup> Barnett and Finnemore 2004: 71.

<sup>47</sup> Dreher and Vaubel 2004.

borrowers are scarce. To account for global financial conditions I include the nominal U.S. Treasury Bill rate in the models. I also include a measure of the total annual use of IMF credit and administrative resources as a percent of the total quota of the IMF provided by the institution's members (both measured in billions of SDRs). This is an indicator of the general demand for IMF resources and is expected to be positively related to the number of conditions and negatively related to the amount of funding disbursed.

*Extra-Institutional Variables:* Geopolitical interests are commonly invoked to explain variation in the IMF's treatment of borrowers. The challenge is to identify variables that can serve as proxies for a borrower's strategic importance to the most powerful influential member of the IMF, the United States. I use two measures. First, Stone argues that political significance is indicated by the flows of foreign aid.<sup>48</sup> As a measure of strategic importance I include a variable that records annual American military aid and grants to a borrowing country.<sup>49</sup> Dreher and Jensen suggest that voting in the UN General Assembly is a better variable to measure the effect of geopolitical interests on the IMF's behavior.<sup>50</sup> The similarity of voting profiles in the UNGA is used as an indicator of the closeness of a borrower and powerful state in a number of studies of the IMF.<sup>51</sup> The measure I use captures the similarity of a borrower's and the United States' voting decisions on UNGA resolutions. The variable (*U.S. Affinity*) ranges from -1 to 1, with higher values indicating closer relations, as proxied by votes in the UN.<sup>52</sup> If the United States intervenes in the IMF's lending behavior, we should observe that friendly, politically influential countries

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<sup>48</sup> Stone 2002, 2004.

<sup>49</sup> I also ran tests with total American aid (economic and military aid). This measure was not significant in any of the models.

<sup>50</sup> Dreher and Jensen 2007.

<sup>51</sup> Barro and Lee 2005; Oatley and Yackee 2004; Thacker 1999.

<sup>52</sup> Taken from Gartzke 2006.

receive bigger loans with fewer conditions and are more frequent recipients of waivers.

To capture the effect of supplementary financiers on IMF treatment, I create a dichotomous variable that is coded positively when a Paris Club debt restructuring agreement was reached in the six months preceding or following the initiation of an IMF program. This approach follows Gould's logic: "private debt restructuring is a key moment when PFIs [private financial influences] may be able to organize themselves, develop a coherent bargaining strategy, and articulate their preferences to Fund representatives."<sup>53</sup> I focus on Paris Club agreements because creditor states are shown in Gould's (2006) work to have the most powerful effect on conditionality.<sup>54</sup>

*Domestic Institutional Variables:* Several domestic political variables aside from the presence of neoliberals can be identified as plausible determinants of IMF treatment. A well established literature on the economic effects of the electoral cycle suggests that governments are more prone to adopt irresponsible policies in the period preceding elections. An internal review by the IMF staff identified pre-election dynamics as an important cause of deviations from binding conditions in at least six major programs in the 1980s and 1990s.<sup>55</sup> If this is the case, the IMF should be tougher on countries before elections.<sup>56</sup> On the other hand, in the "honeymoon" period following an election the IMF might be more lenient on the new government. To measure the electoral cycle, I used the World Bank's Database of Political Institutions to gather the dates of elections in countries in the sample. Since political business

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<sup>53</sup> Gould 2003: 566.

<sup>54</sup> A better test of the supplementary financiers explanation would measure private bank exposure as well as creditor state influence, but data on bank exposure in the developing world is variable in quality and unavailable for many of the countries in the analysis.

<sup>55</sup> Memorandum for the Executive Board, "Review of Studies under ESAF-Supported Arrangements – Staff Studies, Volume 2," EBS/97/112 Supplement 2, July 7, 1997

<sup>56</sup> Indeed, Dreher (2004) provides evidence that program interruptions are more frequent around elections.



cycles should only be present in competitive elections, I only included elections with multiple candidates/parties (denoted by a score of 5 or above in the Database of Political Institution's electoral competitiveness index). Two dichotomous variables were generated from this process: an indicator that takes a value of one if a legislative or executive election is scheduled in the next six months (*Pre-Election*), and an indicator for elections that occurred in the previous six months (*Post-Election*).<sup>57</sup>

Partisanship may influence the design of programs. Some accuse the IMF of conservative bias in its lending behavior.<sup>58</sup> To measure the effect of partisan dynamics, I include an indicator for the presence of Left governments.<sup>59</sup> The effects of three other domestic institutional variables are examined. Vreeland argues that executives might seek to bring in the IMF when there are many veto players that can prevent policy change; on the other hand, the IMF might be tougher with countries with many veto players because ambitious reforms are less likely to be carried out in these cases.<sup>60</sup> Both conjectures lead us to expect that increasing the number of veto players will mean tougher treatment: more conditions, smaller loans, and a lower probability of receiving a waiver. The measure of the number of veto players is drawn from the Database on Political Institutions.

The effect of regime type on IMF treatment is controversial. Vreeland suggests

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<sup>57</sup> I ran analyses with separate indicators for legislative and executive elections, and experimented with different lengths of time for pre- and post-election variables; the results did not change significantly using these alternative specifications.

<sup>58</sup> Pastor, 1987; Payer, 1974; Pop-Eleches, 2003: 279. It is important to note that my shared neoliberal ideas explanation is not the same as a "rightist bias" argument. While competing ideas about economic policy may line up along partisan lines, this is not always the case. Much more important than partisan identification in my framework are the shared ideas about economic stabilization and development between the IMF and policymakers; these ideas can and do transcend partisan labels, as the examples of neoliberal reforms under the Left governments of Fujimori in Peru, Menem in Argentina, and Cardoso in Brazil in the 1990s illustrate. As Miguel Centeno writes, "rather than sharing an ideology, technocrats may be seen as sharing a mentality or cognitive framework" (1993: 312).

<sup>59</sup> The Database of Political Institutions records the political party of the chief of government and the largest party in government. I code the variable as "1" when either the executive or the largest party in the governing coalition is recorded as a Left party.

<sup>60</sup> Vreeland 2003.

that the IMF might prefer negotiations with dictatorships, which can more readily commit to and carry out tough conditions.<sup>61</sup> On the other hand, the “democratic commitment” literature emphasizes that democracies can more credibly commit to policies, which suggests that the IMF would be more generous in its treatment of democratic regimes.<sup>62</sup> To test the effect of regime type on IMF treatment, I include a measure drawn from the Polity IV scores, which range from -10 (fully autocratic) to +10 (fully democratic), referred to here as *regime type*. To account for the possibility that the IMF is more likely to issue a waiver for countries experiencing political instability, I include a variable (*instability*) that is coded 1 if the Polity IV regime type indicator changes (in either direction) by at least three points during a three year period.<sup>63</sup>

Tables showing descriptive statistics for each of the variables included in the data analysis can be found in appendix A; the summary statistics are based on the comprehensive statistical models reported in the next section, which reduces the total number of observations due to missing data on some of the independent variables.

### *Methodology*

I use several estimation procedures because of the different properties of the data on IMF treatment. For the total number of binding conditions, I specify a Poisson model with robust standard errors clustered by country. The Poisson is appropriate for these data because they are slightly right-skewed and overdispersion is not a problem.<sup>64</sup> However, the data on the total number of structural conditions is overdispersed – there are more zeros in the data than predicted by the Poisson distribution. I estimate a negative binomial model of the determinants of the number

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<sup>61</sup> Vreeland 2003: 88.

<sup>62</sup> For example, Schultz and Weingast 2003.

<sup>63</sup> This approach to measuring political instability follows Fearon and Laitin (2003).

<sup>64</sup> The Poisson distribution assumes that the mean and variance are equal; overdispersion implies that the variance exceeds the mean. See King 1989: 48-52.

of structural performance criteria to account for this issue.<sup>65</sup> To test the determinants of the size of loans, I estimate a Prais-Winsten regression with panel corrected standard errors and an AR(1) correction.<sup>66</sup> Finally, when the dependent variable measures whether a country under an IMF program receives a waiver I estimate a logit model with robust standard errors clustered by country. To account for time dependence in this model I include three natural cubic splines, which are not substantively interesting and are not reported in the results section.<sup>67</sup> I do not include country- or time-fixed effects in any of the models because of the nature of the data. Including fixed effects washes out the effects of slow-moving variables. In a number of countries the *proportion neoliberal* variable does not change – in these cases, no neoliberals have ever held prominent positions in the government.<sup>68</sup> In addition, fixed effects models may return inconsistent estimates when the structure of the data includes many groups (countries) and few time periods.<sup>69</sup> Most of the explanatory variables are lagged by one year to minimize the risk of endogeneity.<sup>70</sup>

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<sup>65</sup> As robustness checks I ran the models of the number of binding conditions and number of structural conditions using both Poisson and negative binomial estimators. The findings are largely the same regardless of the estimating procedure.

<sup>66</sup> The panel corrected errors follow the recommendation of Beck 2001 for cross-sectional time series data such as my data. The AR(1) correction is added because the Wooldridge test for autocorrelation (implemented in Stata with the *xtserial* command) shows that I should reject the null hypothesis of no first-order autocorrelation ( $F = 5.123$ ,  $\text{Prob} > F = 0.0325$ ).

<sup>67</sup> See Beck, Katz, and Tucker 1998 for an explanation and justification of the use of natural cubic splines in models with limited dependent variables.

<sup>68</sup> As an alternative to country fixed effects, I ran each of the statistical models with five regional dummies (sub-Saharan Africa, Latin America and the Caribbean, Eastern Europe and Central Asia, and the Middle East and North Africa – South Asia was the omitted reference category). Including regional fixed effects did not affect the findings reported in the next section, and the coefficients for the regional dummies were generally quite far from achieving statistical significance. These results are available upon request

<sup>69</sup> See Abrevaya 1997. This is certainly the case for my data: for example, in the comprehensive model of loan size (which includes each of the covariates described in the previous section of the chapter), there are 78 countries with an average of 5.7 observations per group – and several countries appear only once in the dataset because they signed a single program during the two decades in the analysis.

<sup>70</sup> Since I have the date of approval for all the programs signed by the IMF and a borrower, I can identify the period of the year in which the program is concluded. For more accurate estimates, when a program is signed in December I include data for the year of the observation; otherwise, all variables noted in the table with the  $t - 1$  subscript are lagged by one year. The number of programs signed in the last month of a year is small, and the list is available by request.

Before getting to the results, it is worth noting that the sampling method is different from most statistical studies in international relations. For the conditionality and loan size models, the sample includes only countries that received a program in the years between 1980 and 2000. The variation I am interested in explaining is not whether a country received a program, but rather the variation in the treatment of countries under IMF programs. The data are organized in the typical country-year structure, but could also be thought of as program-year observations. The sample is slightly different for the waivers dataset: here the sample consists of countries that are under active IMF programs and thus at risk of receiving a waiver (or multiple waivers) at some point during the calendar year.<sup>71</sup>

## **Results and Discussion**

Simple descriptive statistics indicate that there is a relationship between the presence of neoliberals and treatment by the Fund. The average number of binding conditions is 12.4 when there are no neoliberals in government. The average declines to 11.8 conditions in countries where less than half of the economic policy team is neoliberal, and in countries where neoliberals make up more than half of the policy team the average number of conditions is 11.6. These are not dramatic differences, and the ability to make generalizable claims from descriptive statistics is limited –

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<sup>71</sup> A discussion of sampling necessitates consideration of selection issues. Understanding and correcting for biased selection is prominent in the statistically-oriented literature on the IMF, for good reason: much of the empirical literature is interested in exploring the effects of Fund programs on outcomes (growth, inequality, etc). The distribution of IMF programs is not random: countries choose to go to the IMF for some reason, and the factors that influence the choice to approach the Fund might also be systematically related to the outcome variable (see Vreeland 2003: 112-18 for a good discussion). The solution to the problem of selection depends on whether the factors that motivate selection into IMF programs can be observed or are unobservable – and there are drawbacks to both types of approaches (for example, see the debate between von Stein 2005 and Simmons and Hopkins 2005). My goal in this chapter is to understand the determinants of variation in the IMF's treatment of borrowers, not the effect of IMF programs, so selection is not such a pressing concern. Selection would be a problem here if some aspect of the selection process that determines which countries receive programs is also related to the design of programs. This becomes an omitted variable problem. I contend that the inclusion of all theoretically important domestic and international variables should mitigate concerns about omitted observable variables.

nonetheless, the numbers suggest that my explanation has at least face validity.

Structural conditions show a similar pattern: the average number for observations with no neoliberals is 1.7; when the proportion of neoliberals is half or greater, the average declines to 0.6. The bivariate correlations between the *proportion neoliberal* variable and loan size ( $r = 0.16, p = 0.0003$ ) and between neoliberals and the presence of waivers ( $r = 0.16, p = 0.0000$ ) are also suggestive.<sup>72</sup> Does my explanation stand up in statistical tests against other plausible determinants of variation in Fund treatment?

Before moving to the presentation of the results, it is important to review the strategy I employ in the following pages. Rather than presenting one comprehensive model in which each of the explanatory variables described in the previous section are included on the right hand side of the equation, I take a more cautious approach. I start with simple models that include just the key explanatory variable, *proportion neoliberal* and one or two “controls” on the right hand side, and explore whether the relationship between my key variable and the dependent variables remains as additional explanatory variables are incrementally added. There are good reasons to proceed cautiously. The critiques offered by Achen, Clarke, and Ray of the “garbage can” approach to statistical inference describe a litany of problems that can accompany statistical models with long lists of independent variables.<sup>73</sup> The risk that we fail to capture the true impact of an important explanatory factor is multiplied in complicated models: for example, nonlinearities in an independent variable can obscure the relationship between other variables and the outcome of interest<sup>74</sup>, and the

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<sup>72</sup> Pairwise correlations between the *proportion neoliberal* variable and the number of binding conditions ( $r = -0.111, p = 0.01$ ) and number of structural conditions ( $r = -0.117, p = 0.01$ ) are also negative and significant.

<sup>73</sup> See the essays by Achen (2005), Clarke (2005), and Ray (2005) in the special issue of *Conflict Management and Peace Science*. Kadera and Mitchell (2005) provide an example of an attempt to apply simplified statistical models in studies of international conflict.

<sup>74</sup> Achen (2005) presents simulations that show how even small nonlinearities can skew results of standard regression models.

inclusion of a control variable that intervenes between the key explanatory variable and the outcome can generate misleading estimates.<sup>75</sup> These issues can overwhelm any possible biases from omitted explanatory variables.

It is worth heeding the advice of methodologists that more is not always better. The central goal in this chapter is to develop a clearer understanding of the relationship between neoliberal policymakers and the IMF's treatment, not to create a statistical model that explains as much variation in IMF treatment as possible. I present the results from fully specified models only after showing that the associations between *proportion neoliberal* and the dependent variables hold in simpler models. The exercise is intended to demonstrate that the central findings in the chapter are not dependent on modeling choices.

#### *Determinants of the Number of Conditions*

In table 3.1 I present the results from a series of Poisson models of the number of performance criteria; table 3.2 displays findings from a set of negative binomial models of the determinants of the number of structural conditions. In both tables I begin in column (1) with a basic specification that includes only the time counter variable and the *proportion neoliberal* indicator; in each subsequent specification I add and remove potentially confounding variables to observe the changing impact of the central explanatory variable on the extent of conditionality.<sup>76</sup>

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<sup>75</sup> Ray (2003) explains that the relationship between key explanatory X and outcome Y can be muted if an intervening variable Z is included on the right hand side of the equation.

<sup>76</sup> There is no set of guidelines for which variables should be included, and it would be unwieldy to present results from all possible configurations of variables. I try to account for theoretically important factors that, if omitted, might lead to inflated and inaccurate estimates of the impact of *proportion neoliberal* on IMF treatment of borrowers.

Table 3.1: Models of the Determinants of the Number of Binding Conditions in IMF  
Agreements

<i>Independent variables</i>	(1) Basic model	(2) Add Affinity	(3) Add T-Bill	(4) Drop Counter	(5) Econ. controls
Time Counter	0.02*** (0.002)	0.021*** (0.002)	0.012*** (0.003)		0.022*** (0.002)
Proportion Neolib.	-0.174*** (0.041)	-0.198*** (0.042)	-0.201*** (0.039)	-0.192*** (0.039)	-0.201*** (0.056)
U.S. Affinity <sub>t-1</sub>		-0.086* (0.031)	-0.088** (0.030)	-0.068* (0.032)	-0.073* (0.034)
U.S. T-Bill rate <sub>t-1</sub>			-0.025*** (0.005)	-0.048*** (0.004)	
Reserves/Debt <sub>t-1</sub>					-0.0001 (0.0003)
Log GDP <sub>t-1</sub>					0.004 (0.009)
Regime Type <sub>t-1</sub>					
Left Government					
Debt Resched.					
No. of obs.	503	498	498	498	452



Table 3.1 (continued)

<i>Independent variables</i>	(6) <i>Add Regime</i>	(7) <i>Add Left Gov.</i>	(8) <i>Add Debt</i>
Time Counter	0.023*** (0.002)	0.023*** (0.002)	0.023*** (0.002)
Proportion Neolib.	-0.188*** (0.045)	-0.188*** (0.045)	-0.185*** (0.044)
U.S. Affinity <sub>t-1</sub>	-0.088* (0.034)	-0.084* (0.035)	-0.066 (0.034)
U.S. T-Bill rate <sub>t-1</sub>			
Reserves/Debt <sub>t-1</sub>			
Log GDP <sub>t-1</sub>			
Regime Type <sub>t-1</sub>	-0.002 (0.002)	-0.002 (0.002)	-0.001 (0.002)
Left Government		0.017 (0.021)	0.013 (0.021)
Debt Resched.			0.059** (0.020)
No. of obs.	474	474	474

Poisson regressions, robust standard errors clustered by country in parentheses. \*p<10%; \*\*p<5%; \*\*\*p<1%

Table 3.2: Models of the Determinants of the Number of Binding Structural  
Conditions in IMF Agreements

<i>Independent variables</i>	(1) Basic model	(2) Add Affinity	(3) Add T-Bill	(4) Drop Counter
Time Counter	0.076*** (0.012)	0.087*** (0.012)	0.059*** (0.018)	
Proportion Neolib.	-1.134* (0.477)	-1.353** (0.459)	-1.412** (0.448)	-1.502*** (0.429)
U.S. Affinity <sub>t-1</sub>		-0.865*** (0.236)	-0.857*** (0.242)	-0.704* (0.258)
U.S. T-Bill rate <sub>t-1</sub>			-0.091* (0.042)	-0.202*** (0.030)
Openness <sub>t-1</sub>				
Log GDP <sub>t-1</sub>				
Regime Type <sub>t-1</sub>				
Left Government				
Debt Resched.				
No. of obs.	502	497	497	497

Table 3.2 (continued)

<i>Independent variables</i>	(5) Econ. controls	(6) Add <i>Regime</i>	(7) Add <i>Left Gov</i>	(8) Add <i>Debt</i>
Time Counter	0.101*** (0.015)	0.102*** (0.014)	0.102*** (0.014)	0.10*** (0.015)
Proportion Neolib.	-1.042* (0.493)	-1.165* (0.547)	-1.165* (0.462)	-1.164* (0.458)
U.S. Affinity <sub>t-1</sub>	- 0.806*** (0.227)	-0.730** (0.240)	-0.729** (0.243)	-0.746** (0.250)
U.S. T-Bill rate <sub>t-1</sub>				
Openness <sub>t-1</sub>	-0.132 (0.163)			
Log GDP <sub>t-1</sub>	-0.091 (0.077)			
Regime Type <sub>t-1</sub>		-0.027* (0.012)	-0.027* (0.013)	-0.027* (0.012)
Left Government			0.003 (0.175)	0.008 (0.170)
Debt Resched.				-0.062 (0.133)
No. of obs.	465	474	474	474
Negative binomial regressions; robust standard errors clustered by country in parentheses. *p<10%; **p<5%; ***p<1%				

The results are supportive of the claim that governments with neoliberal economic policymakers receive programs with fewer conditions. The coefficient for the *proportion neoliberal* variable is negative and significant in every specification. More importantly, the substantive impact of the key explanatory variable is very consistent across the various models: holding other variables equal, increasing the proportion of neoliberal policymakers by half a point reduces both the total number of conditions and the number of structural conditions by close to one, regardless of the specification.<sup>77</sup> The impact of likeminded policymakers on conditionality is robust to

<sup>77</sup> The interpretation of coefficients from count models is, unlike linear regression, not straightforward. To assess the substantive importance of different variables, I used the formula ( $\beta$  \* [change in variable] \* mean number of conditions) (see King 1989: 203). The weakest effect of a half point increase in *proportion neoliberal* in the table 3.1 is -1.08 (column 1); the strongest effect is -1.24 (columns 3 and

the addition of variables to account for global financial conditions (the U.S. Treasury Bill rate), strategic interests of the U.S. (the *Affinity* measure), economic conditions in borrowing countries, domestic political factors (regime type and partisanship of the government), and the interests of creditor states.<sup>78</sup>

Several other interesting findings emerge from the exercise: countries that share similar voting profiles with the U.S. seem to benefit from this relationship by receiving fewer conditions, but this relationship is more fragile in the models of the number of binding conditions than in the models of the number of structural conditions. Democratic countries appear, in table 3.2, to receive programs with fewer structural conditions, but the substantive effect of the variable is small: a country that transitions from a full autocracy (Polity score of -10) to a fully consolidated democracy (Polity score of 10) can expect under 1 fewer structural condition per program.

Tables 3.1 and 3.2 demonstrated that the statistical association between *proportion neoliberal* and conditionality is not fragile. With confidence that the relationship is not an artifact of modeling decisions, I move to comprehensive models in which proxies for a variety of plausible explanations are included. Column (1) of table 3.3 displays results for the explanations of the total number of binding conditions.

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4). For the models of the number of structural conditions the effect of a half point increase in the explanatory variable ranges from -0.79 (column 5) to -1.13 (column 4).

<sup>78</sup> The relationship between partisanship and neoliberal policymakers is of particular interest, since many qualitative studies suggest that left governments will be less likely to appoint neoliberals. However, there is essentially no meaningful correlation in my datasets between *proportion neoliberal* and *left government* ( $r = 0.02$ ,  $p = 0.62$ ).

Table 3.3: Determinants of Binding Conditions in IMF Agreements, 1980-2000

<i>Independent variables</i>	No. perf. criteria	No. struc. PCs
	(1) Poisson	(2) Negative binomial
Time Counter	0.016*** (0.003)	0.086*** (0.024)
Total Use of IMF Credit/Quota <sub>t-1</sub>	0.338** (0.119)	1.360 (0.965)
U.S. Treasury Bill rate <sub>t-1</sub>	-0.020*** (0.006)	-0.111* (0.054)
Reserves/Debt <sub>t-1</sub>	0.0001 (0.0002)	-0.005 (0.003)
Debt/GNI <sub>t-1</sub>	0.0001* (0.00007)	-0.0002 (0.0007)
Log GDP <sub>t-1</sub>	0.012 (0.009)	-0.080 (0.068)
GDP Per Capita Growth <sub>t-1</sub>	-0.002 (0.001)	0.012 (0.012)
Proportion Neoliberal	-0.227*** (0.061)	-1.201* (0.511)
Pre-Election Period	0.021 (0.040)	0.319 (0.296)
Left Government	0.019 (0.021)	-0.037 (0.162)
Regime Type <sub>t-1</sub>	0.0001 (0.002)	-0.010 (0.018)
Veto Players	-0.007 (0.010)	-0.052 (0.069)
U.S. Military Aid <sub>t-1</sub>	1.69x10 <sup>-8</sup> (1.75x10 <sup>-8</sup> )	3.87x10 <sup>-7*</sup> (1.74x10 <sup>-7</sup> )
U.S. Affinity <sub>t-1</sub>	-0.045 (0.041)	-0.513 (0.281)
Debt Rescheduling	0.053* (0.022)	-0.085 (0.137)
Openness <sub>t-1</sub>		-0.241 (0.168)
Constant	2.081*** (0.242)	1.875 (1.648)
No. of observations	423	423
Log likelihood	-1001.86	-659.11
Wald $\chi^2$	366.89	89.62
Probability > $\chi^2$	0.0000	0.0000
Robust standard errors clustered by country in parentheses. *p<10%; **p<5%; ***p<1%		

Bureaucratic factors seem to have an important effect on conditionality: the total use

of IMF resources, U.S. T-bill rate, and time counter variables are all significant determinants. The Fund becomes tougher when its resources are in demand; increasing the value of the total use of IMF resources from its minimum to maximum value leads to slightly more than 1 additional condition. Time is a factor here, as well: for each 5-year period that passes, another condition is added to the typical agreement. The effect of the measure of the desirability of the Fund's lending facilities is very surprising. Contrary to expectations, a 4 point increase in the nominal Treasury bill rate leads to one less condition per program, on average.<sup>79</sup>

The technocratic explanation, as anticipated by previous work by political scientists on the IMF, does not perform well. The only economic variable in the analysis of the number of conditions in column (1) of table 3.3 that achieves a conventional level of significance is the measure of external indebtedness. The political variables also have a weak effect on the number of conditions. In contrast to the realist argument, I do not find evidence in the comprehensive model that countries of geopolitical value to the U.S. are rewarded with programs with fewer binding conditions overall.<sup>80</sup> The *U.S. Affinity* measure has the expected sign, but the coefficient is quite small and the standard error is large, indicating that the effect is not estimated with much precision. It is important to keep in mind, however, that *U.S. Affinity* showed a significant negative relationship with the total number of conditions in the barebones models in table 3.1. I find that periods preceding and following Paris Club debt rescheduling are positively and significantly related to the number of

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<sup>79</sup> It is important to note that the high correlation between the time counter and U.S. T-bill rate variables probably attenuate their substantive impact when they are included together. In column (4) of table 3.1, the substantive effect of a four point increase in the Treasury bill rate – without the counter variable – is just under two and a half fewer conditions.

<sup>80</sup> This finding fits with Dreher and Jensen's results. They find evidence that US interests lower the number of total conditions – measured without distinguishing binding from nonbinding conditions – but find no effect of voting with the US in the UNGA on the number of performance criteria, the dependent variable on interest in this chapter.

conditions, but the substantive effect of the variable is small and hard to interpret (two-thirds of a condition is added when a country is or has been involved in debt negotiations).

Bureaucratic factors also influence the number of structural conditions in agreements, as shown in column (2) of table 3.3. The results indicate that a structural condition is added to the average program per each decade that passes, and that a six point increase in the Treasury bill rate results in one fewer structural condition. The evidence for the effect of geopolitics is particularly interesting: U.S. interest measured as closeness of voting profiles in the UNGA (*U.S. Affinity*) has a big (though not quite statistically significant) effect on the number of structural conditions. In the stripped-down models in table 3.2, a one and half point increase in the *Affinity* score – roughly, moving from Iran’s record of voting in the UN General Assembly over the past three decades to Israel’s voting record – results in programs with about one fewer structural condition, all other variables held constant. This effect is attenuated somewhat in the comprehensive model. However, the effect of American military aid runs in the opposite direction. Perhaps the types of countries that have high *U.S. Affinity* scores systematically differ from countries that receive American military aid. Another possibility suggested by Dreher and Jensen is that American officials focus their efforts to influence lending to its allies that, for political reasons, do not receive much aid.<sup>81</sup>

My main interest in this chapter is examining the effect of neoliberals on aspects of IMF treatment. The evidence presented in the full specification in table 3.3 provides strong confirmation that policy teams staffed with neoliberal officials get better treatment: in the analysis of both the number of conditions and the number of

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<sup>81</sup> Dreher and Jensen 2007. It is notable that the correlation between *U.S. Affinity* and U.S. military aid is slightly negative ( $r = -0.08$ ,  $p = 0.09$ ).



structural criteria, controlling for a range of different explanations, the *proportion neoliberal* variable is negative and highly significant. Table 3.4 provides a substantive interpretation of the impact of the variable on IMF conditionality based on the results from the comprehensive model. The table shows the predicted number of conditions in a program when the explanatory variables are held constant at different values and the *proportion neoliberal* measure is allowed to vary.<sup>82</sup>

Table 3.4: Predicted No. Conditions at Different Levels of *Proportion Neoliberal*

<i>Proportion Neoliberal varies, other variables held at mean/minimum</i>	<b>Predicted Number of Conditions</b>	
	# total conditions (95% conf. interval)	# structural conditions (95% conf. interval)
Proportion Neoliberal = 0	<b>12.16</b> (11.74, 12.62)	<b>1.55</b> (1.14, 2.09)
Proportion Neoliberal = 0.25	<b>11.48</b> (11.07, 11.93)	<b>1.14</b> (0.79, 1.59)
Proportion Neoliberal = 0.50	<b>10.84</b> (10.26, 11.51)	<b>0.86</b> (0.49, 1.39)
Proportion Neoliberal = 0.75	<b>10.24</b> (9.45, 11.19)	<b>0.65</b> (0.29, 1.29)
Proportion Neoliberal = 1	<b>9.67</b> (8.67, 10.85)	<b>0.51</b> (0.16, 1.22)

As the proportion of the government occupied by neoliberals incrementally increases the predicted number of conditions decreases. Moving from a government with no neoliberals to a unified neoliberal government shaves two conditions off lending programs. The influence of neoliberals on the predicted number of structural conditions is less dramatic but still substantively important. This is the first set of compelling evidence in favor of my argument.

#### *Determinants of the Size of IMF Loans*

The next set of results explores the determinants of the generosity of IMF loans. As in the previous section, I test the effect of the *proportion neoliberal* variable

<sup>82</sup> I hold the continuous variables at their means, and the dichotomous variables (Left Government, Debt Rescheduling, Pre-Election Period, and Openness) at their minimum value (0) to simulate a typical borrower. The predicted values are calculated using *Clarify* (Tomz, Wittenberg, and King 2001).

in several different specifications before presenting the comprehensive model of the determinants of the size of loans.

I start in table 3.5 with a barebones model: with the just the log of GDP and U.S. Treasury Bill rate included as covariates alongside my main explanatory variable, the results indicate that a one standard deviation increase in *proportion neoliberal* leads to a 7 percent increase in the size of the average loan. The positive, significant relationship between *proportion neoliberal* and loan size holds across a number of different specifications. The substantive impact on the size of IMF loans of a transition from a government without neoliberals to a unified neoliberal policy team ranges between 35 and 45 percent in the different specifications in table 3.5. The relationship between the key explanatory variable and loan size remains strong and consistent as I build from a minimal specification to more complicated models. This finding stands in contrast to the fragility of the relationship between loan size and the indicator of American political influence (*U.S. Affinity*). The point estimate of the effect of a one unit change in the *Affinity* score on loan size ranges between 13 percent in the barebones model in column (2) and 33 percent in column (3), and only in the third column does the coefficient for the indicator of the friendliness of the relationship between the borrower and the United States reach conventional levels of statistical significance.

Table 3.5: Models of the Determinants of the Size of IMF Loans

<i>Independent variables</i>	(1) Basic model	(2) Add <i>Affinity</i>	(3) Add <i>Reserves</i>
Log GDP <sub>t-1</sub>	0.106*** (0.030)	0.101*** (0.029)	0.111*** (0.028)
Proportion Neoliberal	0.372* (0.175)	0.424* (0.168)	0.458* (0.171)
U.S. T-Bill rate <sub>t-1</sub>	0.101*** (0.018)	0.101*** (0.017)	0.099*** (0.013)
U.S. Affinity <sub>t-1</sub>		0.134 (0.118)	0.328* (0.119)
Reserves/Debt <sub>t-1</sub>			-0.004*** (0.001)
Regime Type <sub>t-1</sub>			
Left Government			
Post-Election Period			
No. of observations	483	479	460

Table 3.5 (continued)

<i>Independent variables</i>	(4) <i>Add Regime</i>	(5) <i>Add Left Gov</i>	(6) <i>Add Election</i>
Log GDP <sub>t-1</sub>	0.104*** (0.030)	0.109*** (0.029)	0.102*** (0.027)
Proportion Neoliberal	0.426* (0.168)	0.401* (0.166)	0.352* (0.129)
U.S. T-Bill rate <sub>t-1</sub>	0.099*** (0.017)	0.095*** (0.017)	0.098*** (0.016)
U.S. Affinity <sub>t-1</sub>	0.154 (0.117)	0.210 (0.113)	0.203 (0.111)
Reserves/Debt <sub>t-1</sub>			
Regime Type <sub>t-1</sub>	-0.003 (0.005)	-0.005 (0.005)	-0.005 (0.005)
Left Government		0.204*** (0.064)	0.200** (0.064)
Post-Election Period			0.299* (0.118)
No. of observations	475	475	475

Prais-Winsten coefficients, panel corrected standard errors in parentheses.  
 \*p<10%; \*\*p<5%; \*\*\*p<1%

Table 3.6 gives the results from the more fully specified model of the relative generosity of IMF loans.

Table 3.6: Determinants of Size of IMF Loans, 1980-2000

<i>Independent variables</i>	Natural log of loan size/quota PCSE, AR(1)
Total Use of IMF Credit/Quota <sub>t-1</sub>	-0.838 (0.572)
U.S. Treasury Bill rate <sub>t-1</sub>	0.102*** (0.015)
Reserves/Debt <sub>t-1</sub>	-0.004*** (0.001)
Debt/GNI <sub>t-1</sub>	0.0006 (0.0004)
Log GDP <sub>t-1</sub>	0.128*** (0.031)
GDP Per Capita Growth <sub>t-1</sub>	-0.011 (0.007)
Proportion Neoliberal	0.400* (0.168)
Post-Election Period	0.317** (0.107)
Left Government	0.143* (0.062)
Regime Type <sub>t-1</sub>	-0.005 (0.005)
U.S. Military Aid <sub>t-1</sub>	-3.73x10 <sup>-7</sup> *** (1.03x10 <sup>-7</sup> )
U.S. Affinity <sub>t-1</sub>	0.277 (0.149)
Debt rescheduling	0.067 (0.060)
No. of observations	445
R <sup>2</sup>	0.25
Wald $\chi^2$	164.33
Probability > $\chi^2$	0.0000
Prais-Winsten coefficients, panel corrected standard errors in parentheses. *p<10%; **p<5%; ***p<1%	

Several findings stand out. The results are more supportive of the technocratic explanation than the results of the statistical models of the total number of binding conditions. Balance of payments problems in larger economies are more threatening to global economic conditions, and the findings show that the IMF takes the threat seriously by consistently giving larger loans to bigger countries. As reserves increase –

and hence need decreases – the average size of loans decrease. Political factors also matter. Borrowers in the post-election “honeymoon” period are rewarded with loans that are approximately 37 percent larger.<sup>83</sup> In contrast to arguments that claim that the IMF is biased in favor of conservative parties, Left governments actually receive more generous disbursements: the point estimate from the results in table 3.6 indicates that governments dominated by left parties see an increase in loan size of 15 percent.

The contradictory effects of the proxies for U.S. interest emerged in the analysis of the number of conditions, and the finding is similar when the dependent variable is the logged size of loans. In column (1) of table 3.5, political proximity with the U.S. (as measured by UN voting profiles) exerts a big impact on the generosity of loans. A one standard deviation increase in the *Affinity* score is associated with a 7.7 percent increase in loan size as a percent of quota. However, as noted in the discussion on the previous page, the effect of *U.S. Affinity* is not very robust, and the variable fails to achieve significance in the comprehensive model of the determinants of loan size. The direction of the U.S. military aid variable remains surprising. Countries that receive more American military aid receive, on average, slightly smaller loans: a one standard deviation increase in military aid from the United States (in absolute terms, an increase of \$140,360) is linked to a 5 percent *decrease* in the generosity of high-conditionality Fund lending arrangements.

The results provide additional evidence in support of the argument that the IMF systematically favors governments with neoliberal economic policymakers. The substantive effect is dramatic: loans to unified neoliberal governments are

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<sup>83</sup> The effect of dummy variables in log-linear regression is calculated as an arc elasticity, using the formula  $e^{\beta} - 1$  (see Goldstein, Rivers, and Tomz 2007: 47). I included the pre-election variable as well, which was not significant.

approximately 40 percent larger than loans to governments with no neoliberals.<sup>84</sup>

According to table 3.6, a one standard deviation increase in the *proportion neoliberal* variable increases the average loan by 7 percent. The cautious strategy I employ in this chapter should provide reassurance that the relationship between likeminded policymakers and the IMF's treatment in terms of the generosity of loans does not depend on the presence or exclusion of any number of other explanatory variables.

#### *Determinants of the Issuance of Waivers*

The third and final aspect of IMF treatment examined in this chapter is enforcement of conditionality. Table 3.7 confirms that there is a strong positive relationship between *proportion neoliberal* the issuance of waivers by the IMF, and, further, that the association is not sensitive to different specifications. Including potentially confounding variables such as political proximity to the U.S., regime type, and partisanship does not affect the substantive impact or the significance of my key explanatory variable.

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<sup>84</sup> The results are entirely consistent with the theoretical expectations from chapter 2, but it is important to note that the confidence interval around this point estimate is fairly large: the 95 percent confidence interval is 0.072 on the lower bound and 0.729 on the upper bound of the estimates.



Table 3.7: Models of the Determinants of Waivers

<i>Independent variables</i>	(1) Basic model	(2) Add <i>Affinity</i>	(3) Econ. controls	(5) Add <i>GDP</i>
U.S. T-Bill rate <sub>t-1</sub>	-0.092* (0.034)	-0.091* (0.034)	-0.083* (0.036)	-0.083* (0.036)
Proportion Neoliberal	1.868** (0.672)	1.827* (0.696)	1.919* (0.705)	1.757* (0.696)
U.S. Affinity <sub>t-1</sub>		-0.174 (0.399)	-0.236 (0.435)	-0.291 (0.429)
Gov't Consumption <sub>t-1</sub>			0.021 (0.018)	0.025 (0.019)
Inflation <sub>t-1</sub>			0.0004** (0.0001)	0.0003** (0.0001)
Log GDP <sub>t-1</sub>				0.058 (0.064)
Regime Type <sub>t-1</sub>				
Left Government				
Instability <sub>t-1</sub>				
No. of observations	776	768	739	738

Table 3.7 (continued)

<i>Independent variables</i>	(6) <i>Add Regime</i>	(7) <i>Add Left Gov.</i>	(8) <i>Add Instab.</i>
U.S. T-Bill rate <sub>t-1</sub>	-0.076* (0.036)	-0.074* (0.036)	-0.077* (0.036)
Proportion Neoliberal	1.950** (0.678)	1.997** (0.635)	2.021*** (0.619)
U.S. Affinity <sub>t-1</sub>			
Gov't Consumption <sub>t-1</sub>	0.019 (0.018)	0.021 (0.018)	0.019 (0.018)
Inflation <sub>t-1</sub>	0.0004*** (0.0001)	0.0003** (0.0001)	0.0004*** (0.0001)
Log GDP <sub>t-1</sub>			
Regime Type <sub>t-1</sub>	0.003 (0.016)	0.006 (0.016)	0.008 (0.016)
Left Government		-0.239 (0.200)	-0.253 (0.195)
Instability <sub>t-1</sub>			-0.365 (0.260)
No. of observations	739	739	739

Binary logit, robust standard errors clustered on country in parentheses, with three cubic splines (not reported). \*p<10%; \*\*p<5%; \*\*\*p<1%

Table 3.8: Determinants of Waivers, 1980-1997

<i>Independent variables</i>	Waiver issued (1) Logit	Multiple waivers (2) Logit
Use of IMF credit/quota <sub>t-1</sub>	2.149 (1.713)	0.117 (2.467)
U.S. Treasury Bill rate <sub>t-1</sub>	-0.099* (0.046)	-0.026 (0.066)
Reserves/debt <sub>t-1</sub>	0.004 (0.003)	0.004 (0.004)
Debt/GNI <sub>t-1</sub>	-0.0007 (0.002)	0.0002 (0.002)
Log GDP <sub>t-1</sub>	0.086 (0.074)	0.099 (0.087)
GDP Per Capita Growth <sub>t-1</sub>	0.008 (0.020)	-0.024 (0.026)
Gov't Consumption/GDP <sub>t-1</sub>	0.038 (0.020)	0.044 (0.023)
Inflation <sub>t-1</sub>	0.0003* (0.0002)	-0.0002 (0.0003)
Proportion Neoliberal	2.051** (0.668)	2.656*** (0.734)
Election	-0.100 (0.274)	-0.265 (0.375)
Left Government	-0.346 (0.216)	-1.150** (0.372)
Regime Type <sub>t-1</sub>	0.014 (0.017)	0.010 (0.026)
Instability <sub>t-1</sub>	-0.237 (0.263)	-0.004 (0.368)
US Military Aid <sub>t-1</sub>	-1.43x10 <sup>-6</sup> (8.13x10 <sup>-7</sup> )	-3.59x10 <sup>-6</sup> (1.88x10 <sup>-6</sup> )
UN Voting Affinity <sub>t-1</sub>	-0.306 (0.489)	-0.089 (0.733)
Debt Rescheduling	0.315 (0.237)	0.310 (0.332)
Constant	-4.041* (1.898)	-5.505* (2.308)
No. of observations	697	697
Log likelihood	-308.950	-189.602
Wald $\chi^2$	49.32	46.73
Probability > $\chi^2$	0.0002	0.0004
Binary logit, robust standard errors clustered on country in parentheses, with three cubic splines (not reported). *p<10%; **p<5%; ***p<1%		

Column (1) in table 3.8 reports the results of a more comprehensive logistic regression when the dependent variable is the issuance of a waiver that allows a country to continue its program despite missing one or more binding condition; column (2) present results of a logistic model of the determinants of multiple waivers. The results are disappointing for most of the explanations of variation in the IMF's treatment – few variables show a strong and significant relationship to the issuance of waivers. The negative (and significant) sign on the U.S. Treasury Bill Rate variable indicates that the IMF is less lenient when global financial conditions worsen for borrowers in the developing world. Only one macroeconomic variable is a significant determinant in column (1): inflation is positively and significantly related to the likelihood that a country receives a waiver. Government consumption (measured as a proportion of GDP) is also positively related to the presence of waivers, but just misses the conventional cutoff for significance ( $p = 0.056$ ). The positive relationships between these two economic indicators and the outcome variable in table 3.8 is likely a consequence of the fact that countries under IMF programs that experience high inflation rates and high government spending are more apt to need waivers to keep their programs on track, and thus are more likely to agitate for lenient treatment.

Political variables, aside from the presence of sympathetic interlocutors in borrowing countries, by and large do not have important effects on the probability that a waiver is issued. The analysis of the tougher measure of waivers lends some credence to the view that the IMF has a rightist bias. Left governments are less likely to receive multiple waivers than other types of governments. The indirect measures of strategic importance to the U.S. do not show clear relationships with the measure of enforcement of conditions.

The most powerful determinant of the likelihood of receiving a waiver is the presence of neoliberal economic policymakers in the borrowing government. As the

proportion of the economic policy team taken by neoliberals increases, countries under programs become increasingly likely to receive waivers. Table 3.9 provides a view of the substantive impact of changing levels of the proportion of neoliberals in government on the predicted probabilities of waivers for noncompliance with program dictates will be issued.<sup>85</sup>

Table 3.9: Predicted Probabilities of Receiving Waivers Based on Changes in the

<i>Proportion Neoliberal Variable</i>		
<i>Proportion Neoliberal varies, other variables held at mean/minimum</i>	<b>Predicted Prob. Of Waiver</b>	
	Waiver (95% conf. interval)	Multiple Waivers (95% conf. interval)
Proportion Neoliberal = 0	<b>0.15</b> (0.10, 0.20)	<b>0.07</b> (0.04, 0.12)
Proportion Neoliberal = 0.25	<b>0.22</b> (0.17, 0.28)	<b>0.13</b> (0.08, 0.19)
Proportion Neoliberal = 0.50	<b>0.32</b> (0.22, 0.44)	<b>0.22</b> (0.13, 0.33)
Proportion Neoliberal = 0.75	<b>0.44</b> (0.25, 0.64)	<b>0.35</b> (0.18, 0.55)
Proportion Neoliberal = 1	<b>0.56</b> (0.29, 0.81)	<b>0.51</b> (0.24, 0.77)

The table shows the dramatic effect of changes in the *proportion neoliberal* measure on the likelihood that the IMF will overlook noncompliance by a borrowing government: unified neoliberal policy teams are 41 percent more likely to receive a waiver and 44 percent more likely to receive multiple waivers than governments without neoliberal economic policymakers. The predicted probabilities in table 3.9, combined with the rest of the results described in this chapter, are strong evidence that shared neoliberal ideas shape the way in which the IMF engages with its borrowers.

### Sensitivity of the Statistical Results to Unusual Observations

The data analysis strategy I pursued in the chapter was cautious. I started with

<sup>85</sup> In the simulation all of the continuous variables are held at their mean value, and dichotomous variables are held at their minimum value (Election, Instability, Debt Rescheduling, and Left Government are all set to zero). Predicted probabilities are calculated using *Clarify* (Tomz, Wittenberg, and King 2001).

minimal specifications featuring just the key explanatory variable (the proportion of important neoliberal economic policymakers in borrowing governments) and a small number of additional covariates before moving to more comprehensive models with many covariates. There is a good reason to proceed carefully: recent methodological critiques suggest a range of potential problems caused by relationships among the covariates on the right hand side of the estimating equation.<sup>86</sup> The sequential model-building exercises reported in the preceding pages gives confidence that the main findings are robust. The consistency of the relationship between *proportion neoliberal* and the measures of IMF treatment across multiple specifications indicates the results are not artifacts of arbitrary decisions about which explanatory variables remain in the analysis and which variables are omitted.

I also take steps to make to make sure that the results are not driven by a few particularly influential observations. Diagnostic tests can reveal clusters of data points that are poorly explained by the statistical model; these outliers might be a consequence of errors in the coding or data entry process, or might signal that, for a subset of observations, the data-generating process that produced the outcome differs from the rest of the sample. In either case the presence of outliers and other influential data points pose a threat to the conclusions we can take from data analysis. Given that the number of observations in each of the models is not particularly large, outlying data points could be problematic for my analysis. While IMF agreements are, in general, fairly consistent, I want to guard against the possibility that an aberrant (or miscoded) agreement is driving the findings.<sup>87</sup>

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<sup>86</sup> Achen 2005; Clarke 2005; Ray 2005.

<sup>87</sup> I mentioned in footnote 10 in this chapter that some IMF loans could not be accurately coded for the extent of conditionality because important sections of the agreement were missing or withheld by the request of the country's IMF representative; this was a problem for a very small number of lending arrangements – specifically, loans to Brazil, Turkey, and Pakistan in the mid- to late-1990s. The material found in the archives for these agreements did not allow me to distinguish binding from non-binding conditions; consequently, they are excluded from the conditionality dataset. However, each of

A more detailed discussion of the approach I use to identify outliers – and a discussion of the results of the models of the determinants of IMF treatment once the outlying observations are removed – follows this chapter in an appendix. I give a very brief overview of the strategy and the sensitivity of the main findings in this section. As a first step I generated deviance residuals for each of the comprehensive statistical models. The residuals were inspected visually, which allowed me to identify observations that were poorly predicted by the statistical models.<sup>88</sup> As a rule of thumb, deviance residuals that are greater than an absolute value of 2 (larger absolute values indicate that the model seriously over- or under-predicts the outcome) indicate that the data points are outliers.

A quick perusal of the plotted deviance residuals in Appendix B shows that, for each aspect of IMF treatment, the majority of the observations fall between -2 and +2. There are several agreements that stand out due to very large residuals; notably, the Korean agreement signed in December 1997 is an outlier both in terms of the extent of conditionality and the size of the disbursement. This is not surprising: the Korean agreement has been put forth by several high-profile observers as an example of an excessively intrusive IMF lending arrangement.<sup>89</sup>

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the agreements for which I am missing the text listing the binding conditions are included in the models of the size of loans and the models of the issuance of waivers.

<sup>88</sup> Residuals – the difference between fitted and observed outcomes – are commonly used to assess model fit in linear regression (see Fox 1991), but are also very useful for non-linear models. Cameron and Trivedi advocate the use of residuals for count models of the type used here, noting that: “residual analysis, particularly visual analysis, can potentially indicate the nature of misspecification and ways that it may be corrected, as well as provide a feel for the magnitude of the effect of the misspecification” (1998: 140).

<sup>89</sup> Consider, for example, Dani Rodrik’s assessment of the Korean program: “the Korean government accepted an extensive program of reform that, carried to its fruition, would completely overhaul the structure and governance of the Korean economy...[the Korean letter of intent] contains one-and-a-half pages on macroeconomic policy and twelve densely-packed pages on privatization, financial sector restructuring, prudential regulation and supervision, corporate restructuring, trade and capital account liberalization, and transparency, monitoring, and data reporting. The extent to which the conditionality imposed on Korea departs from the traditional approach – with its focus on quantitative macro and fiscal policy indicators – is striking...In effect, the reforms in labor market institutions, trade and capital accounts, and government-business relations entail a remolding of the Korean economy in the image of a Washington economist’s idea of a free market economy” (1999: 5-6).



I use the visualizations of the distribution of the residuals to identify the subset of IMF agreements that are outliers. To assess the sensitivity of the statistical findings, I re-analyze each model with the outlying observations omitted. Details on the procedure and tables displaying the new results are given in the appendix. For each of the measures of IMF treatment, the impact of the *proportion neoliberal* variable on is consistent with the findings reported in the previous section of the chapter; in fact, removing outliers from the models of the size of IMF loans and the issuance of waivers *strengthens* the relationship between the outcome and my key variable of interest.

## **Conclusions**

Three testable implications emerged from the theoretical framework I developed in the previous chapter: when dealing with governments with sympathetic policymakers, the IMF is more likely to (1) give larger loans, (2) apply less onerous conditionality to the terms of loans, and (3) issue waivers for borrowers that miss binding targets. Testing the hypotheses across a large number of cases is not an easy task; it requires good data on the three aspects of IMF treatment as well as a method for assessing the likelihood that the key economic policymakers in borrowing countries hold neoliberal economic beliefs.

The first sections of the chapter explained how I developed indicators for conditionality, loan size, and enforcement (as dependent variables) and a measure of the proportion of the economic policymaking team that can be considered neoliberal. From these new data a series of statistical models were constructed. Other plausible explanations of the IMF's behavior generate variables that should be linked to the three aspects of treatment; these explanations were included alongside the variable (*proportion neoliberal*) that accounts for my explanation in each of the statistical tests. To make sure that the relationship between the presence of neoliberals and the IMF's

treatment of borrowers is not dependent on the inclusion and exclusion of certain variables, I started with minimal specifications with just a few variables before presenting the comprehensive models. The results showed that shared neoliberal beliefs – while not the sole determinant of variation in the IMF’s treatment – have a statistically significant and substantively powerful impact on the number of binding conditions attached to loans, the generosity of those loans, and the likelihood that a borrower will receive a waiver for noncompliance with binding conditions. Other noteworthy findings came from the tests: evidence suggests that bureaucratic factors play a role in explaining variation in treatment, but the evidence was very mixed for a common explanation of IMF behavior, the strategic interests of the United States. Similarly, the results were mixed for the effect of domestic institutional factors on the aspects of IMF treatment.

In the presence of a wide range of “control” variables, the impact of neoliberals on IMF treatment is impressive. It suggests a systematic pattern of discriminatory treatment by the IMF in favor of governments populated with likeminded economic policymakers. Does discriminatory treatment by the IMF have political consequences in borrowing countries? In the next chapter I turn to an analysis of the effect of IMF programs on the political survival of key economic policymakers. The dissertation then proceeds from aggregate analyses to a more fine-grained test of the explanation in a case study of Argentina’s relationship with the Fund.

## Chapter 4

### Endangered Species: The IMF and the Political Survival of Economic Policymakers

The analysis to this point has focused on the relationship between a domestic-level variable – the proportion of neoliberal economic policymakers in government – and the IMF’s treatment of borrowing countries. The results from a set of statistical tests suggested that governments in which neoliberals occupy the top economic policymaking positions receive, on average, larger loans with fewer conditions and are more likely to receive waivers for non-compliance with binding conditions.

The principal theoretical claim in the previous sections of the dissertation is that in order to understand the Fund’s decision-making we need to know something about (1) the neoliberal purpose of the institution (because the IMF is in most instances less constrained than is typically assumed by political scientists) and (2) the manner in which the Fund’s decision making reflects political choices in the presence of deep uncertainty (because the institution’s staff and management face complex, unsettled situations in borrowing countries and have an affinity for policy teams led by fellow neoliberals). The framework helps explain why we observe so much variation in the Fund’s treatment of borrowers and provides a baseline for understanding how the IMF makes choices about the use of its resources in developing countries.

Most existing research on the IMF focuses on the determinants of the institution’s lending behavior. That this is the case is not surprising: the study of international political economy was shaped in good part by scholars interested in the origins and activities of international institutions. Asking how international institutions such as the IMF work requires engagement with fundamental questions related to the definition of state interests, the distribution and uses of power, and incentives for

international cooperation.<sup>1</sup>

But there is another way in which the study of international institutions can be useful. The policies that the international institutions pursue – regardless of their origins – have impacts on domestic political processes. A growing body of research demonstrates that exploring the role of international institutions in a variety of outcomes at the domestic level offers empirical payoffs.<sup>2</sup>

In this chapter I develop and test a mechanism that ties the IMF to the political survival of economic policymakers in borrowing governments.<sup>3</sup> I focus on an observable implication from the theory described in the second chapter: because neoliberal economic policymakers are able to extract better terms in the loans they negotiate with the IMF, neoliberals in governments that draw on IMF resources become particularly valuable to the political masters that determine their fate. Top neoliberal economic officials can appeal to the fact that the IMF regards them as more credible agents of reform to bolster their position (which is almost always precarious in developing countries), thus lengthening their time in office. In the pages that follow

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<sup>1</sup> Perhaps for this reason the study of international institutions has inspired new thinking and provided a testing ground for the major analytical approaches in international relations. For example, international institutions have been the focus for important work from liberal (Keohane 1984), realist (Krasner 1985) and constructivist perspectives (Abdelal, 2007; Barnett and Finnemore 2004; Hurd 2007).

<sup>2</sup> A detailed review of this emerging literature is beyond the scope of the chapter. Some recent work demonstrates the variety of domestic outcomes that have been linked to pressure from international institutions. For example, Pevehouse (2002) shows that membership in international institutions is positively correlated with democratic consolidation; Abouharb and Cingranelli (2007) link human rights policies to World Bank structural adjustment loans; Epstein (2008) and Johnson (2006) explore how international institutions in post-communist Europe influenced the adoption of independent central banks; Kelley (2004) explains how the language and minority protection policies adopted by Eastern European countries were shaped by regional institutions' political conditionality.

<sup>3</sup> A limited number of studies have linked Fund programs to political outcomes at the domestic level. The main focus for empirically-oriented researchers has been on the IMF's effect on economic outputs (GDP growth, inflation, current account balance, wealth distribution, etc) in borrowing countries. The impact of the IMF on domestic politics remains relatively unexplored territory. There are a few notable (and recent) exceptions: Nooruddin and Simmons (2006) examine how IMF programs affect social spending in democracies and autocracies; Smith and Vreeland (2006) test the impact of IMF programs on the survival of leaders in different institutional contexts; Dreher (2004) investigates how the IMF affects prospects for reelection. A few exceptions notwithstanding, there has been a general lack of attention to the mechanisms linking the IMF to political dynamics in low- and middle-income countries.

I explore this claim in greater detail and present a set of tests of the argument using event history models. I find that the evidence hews closely to the theory: the risk of losing office is significantly reduced for neoliberal finance ministers and central bank governors under IMF programs. In the concluding section I extend the analysis by asking whether countries with long experiences under the IMF become more neoliberal over time. The evidence that I present is not definitive, but it suggests that the IMF operated as a diffusion mechanism for the spread of neoliberalism throughout the developing world in the past three decades. The mechanism related to political survival explains why this might be so.

### **The IMF and the Political Fortunes of Policymakers**

Life can be difficult for the government officials that determine their country's macroeconomic policies. They are tasked with the management of a sensitive and highly unstable system that is subject to all sorts of possible shocks: crises in the financial system, sudden outflows of capital, commodity price crashes, wars, and other dramatic political and economic events. They are blamed for economic problems that occur on their watch, whether the problems were of their own making or not.

Some economic policymakers prove adept at handling economic and political events. Domingo Cavallo of Argentina, for example, kept his job for nearly five and a half years (2,007 days, to be precise) in a country that is inhospitable to finance ministers: the mean duration in office for the 22 officials that preceded him between 1970 and 1991 was just 340 days. Interestingly, his first foray into economic policymaking was not quite as successful: as central bank governor in 1982 Cavallo lasted in office for 54 days.

The varying political fortunes of Domingo Cavallo illustrates how the presence of the IMF can empower officials that share the neoliberal economic beliefs held by the Fund's staff and management. During his time as economy minister Cavallo, who

earned a PhD in economics from Harvard, negotiated a series of generous IMF loans with light (and rather weakly enforced) binding conditionality. Opposed by a number of Peronist party stalwarts – and in the face of an oft-contentious personal relationship with President Carlos Menem – Cavallo’s ability to gain the confidence of the IMF and the broader financial community was essential to ensuring his political survival. Indeed, Judith Teichman argues that Cavallo’s power was rooted in “his preeminent role in debt negotiations and his international ties. With Cavallo as economy minister, Argentina’s relations with the IMF became cordial.”<sup>4</sup> Ngaire Woods makes a similar argument: “Cavallo’s special relationship with the Fund and Bank gave him leverage over other agencies within the Argentine government, making him the gatekeeper of the country’s access to loans as well as to the ongoing support of the institutions.”<sup>5</sup>

Impressionistic evidence suggests that Cavallo’s experience under the IMF is not unique. Several retrospective surveys of post-debt crisis adjustment experiences in the developing world noted an apparent correlation between the presence of the IMF and the strengthening of the political position of neoliberal policymakers. Miles Kahler, for example, argues that the IMF and World Bank seek to identify and empower “allies within the government whose interests are aligned more closely with the policy preferences of the IFIs [international financial institutions].”<sup>6</sup> The IMF in particular attempted to “create such interlocutors and allies....ensuring that this critical transnational link is sustained over time.”<sup>7</sup> Harold James, in his official history of the IMF, notes that “one of the main functions of the IMF has been concerned with the transmission of ideas...by bolstering the position of reformers in the bureaucratic

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<sup>4</sup> Teichman 2001: pg. 121 (quote); see also Teichman 1997: pg. 48.

<sup>5</sup> Woods 2006: 68.

<sup>6</sup> Kahler recognizes that despite the efforts of the IMF and World Bank to strengthen their neoliberal allies in borrowing countries, “in many cases, the technocratic allies of external actors are in vulnerable political positions, despite their importance for a government’s reputation and its access to external finance.” Kahler, 1992: 126, 130.

<sup>7</sup> Kahler 1993: 377.

structures, usually the finance ministry and the central bank.”<sup>8</sup> Summarizing the findings from a variety of detailed case studies of adjustment episodes, Haggard and Webb assert that the presence (or absence) of “conditional external support...can bolster (or weaken) the standing of reformers within the government.”<sup>9</sup>

Anecdotal evidence from cases outside of Argentina provides additional support for the claim that the IMF strengthens the political position of likeminded policymakers. In August 1982 the Mexican government shocked the global financial community with the announcement that it was suspending payments on the country’s external debt. In the wake of the debt crisis a cadre of young American-trained economists and a group of economic nationalists that were openly skeptical of neoliberal policy recommendations vied for influence over Mexican policymaking. Ngaire Woods’ analysis of the Mexican case reveals that “the power and status of the young technocrats was immediately enhanced by their role in dealing with the debt crisis and the IMF.”<sup>10</sup> The example of Miguel Mancera is illustrative. Immediately following the announcement of the debt moratorium and the imposition of exchange controls Mancera, the Yale-trained central bank governor, was replaced in September 1982 by “radical economist” Carlos Tello Macias.<sup>11</sup> The new central banker only lasted two months. Mancera was brought back by President de la Madrid to head the central bank just as the details of a massive three year IMF loan were being finalized. Mancera would be involved in the negotiation of three additional multi-year IMF agreements before he turned the leadership of the central bank over to a Stanford-trained economist, Guillermo Ortiz, at the end of 1997.

Similar dynamics can be identified in other settings. The involvement of the

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<sup>8</sup> James 1996: 133.

<sup>9</sup> Haggard and Webb, 1994: 25.

<sup>10</sup> Woods 2006: 91.

<sup>11</sup> James 1996: 367 (quote).

IMF and World Bank in the early 1980s in the Philippines helped neoliberals gain control of the top economic policy positions – including the central bank, which had for many years been led by a policymaker, Gregorio Licaros, whose views on economic policy contrasted sharply with those of the neoliberals in both Washington and Manila. A confidential World Bank document implies that the institution was cognizant that its resources could be used to support likeminded policymakers: the memo noted that the increased presence of the Bank and Fund in the Philippines would have the effect of “strengthening the position of highly capable technical leaders in the Government and helping them to achieve policy objectives, which we endorse.”<sup>12</sup>

The consolidation of policymaking power by neoliberals in Chile in the mid-1970s is another well known story.<sup>13</sup> Reflecting on the rise of neoliberals in Chilean government, Rolf Lüders, a University of Chicago economics PhD and finance minister in the early 1980s, stated that “the support of the International Monetary Fund and World Bank was crucial to us. They were very enthusiastic because our team thought the way they did; we were following their prescriptions more closely than any other country.”<sup>14</sup>

#### *How the IMF Valorizes Neoliberal Economic Policymakers*

A theme emerges from the scattered research on the IMF and domestic economic policymaking: the presence of the IMF can be a boon to policymakers that share the Fund’s neoliberal economic beliefs. Extant research does not go much beyond speculation about why this might be the case, and there has been no systematic study of the claim. I attempt to fill the gaps in the pages that follow.

One possible mechanism linking the IMF to the fortunes of economic

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<sup>12</sup> Broad 1988: 74 (quote).

<sup>13</sup> For example, Valdes 1995.

<sup>14</sup> Quoted in Hira 1998: 99.



policymakers is through coercion. Borrowers go to the IMF because they face a payments crisis; the IMF, in turn, can use its leverage to influence political and economic decision making. For example, in Madagascar the head of the central bank, Raoul Ravelomanana, was reportedly fired due to pressure from the IMF after evidence of his involvement in a series of questionable financial dealings emerged.<sup>15</sup> But outright coercion by the IMF is exceedingly rare. The analytical framework I developed in chapter 2 and the statistical tests I presented in chapter 3 suggest a more plausible mechanism through which IMF programs affects a specific type of domestic political process – namely, the political survival of top economic officials.

The mechanism I propose is simple but requires some exposition. The first step is to show that the IMF favors some types of policymakers over others.<sup>16</sup> My claim is strengthened if I can show that favoritism goes beyond rhetorical support and actually manifests in a pattern of systematic discriminatory treatment in favor of neoliberals. This is not a difficult case to make. Chapter 3 provides evidence showing that the

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<sup>15</sup> *Keesings Record of World Events*, January 1995: pg. 40349. Ngaire Woods, in her work on the Fund's and Bank's involvement in Mexico in the 1980s, indicates that the World Bank was at times willing to use coercive tactics to retain an intellectually unified policy team: "some within the Bank even thought that if a member of the cabinet did not 'play ball,' they could now make it clear to the government that they would find it easier to work with someone else." Woods 2006: 96.

<sup>16</sup> Existing research is not very clear on how this actually plays out. Favoritism is portrayed in terms of the greater approval or support that the international financial institutions show to neoliberals compared to non-neoliberals; in most cases it is assumed (but not demonstrated) that neoliberals receive bigger loans and better terms. For example, Miguel Centeno suggests that "the need to attract capital will support those personnel and institutions that can most easily obtain the confidence and approval of those who can provide financial resources...[Neoliberal credentials] enable these persons to present arguments that their fellow alumni at the World Bank and the money centers understand and consider legitimate." Likewise, Dezalay and Garth, in their study of the transformation of markets and institutions in Latin America, argue that neoliberals "are the only individuals with the financial expertise (and credibility) necessary to negotiate effectively with their counterparts in Washington." The economic sociologist Marion Fourcade claims that it is "vital for countries' representatives and negotiators to share the economic culture and language of their counterparts in international organizations." Stephan Haggard notes that politicians are willing to delegate to neoliberals in times of economic distress because "such delegation enhances their credibility with crucial external actors, including the international financial institutions." The literature is silent about how we can observe the IMF's preferences toward certain kinds of policymakers. In chapter 3 I remedy this problem by developing three ways of measuring variation in IMF treatment. See Centeno 1993: pp. 325-26; Dezalay and Garth 2002: pg. 174; Fourcade 2006: pg. 179; Haggard 1994: pg. 469.

Fund favors fellow neoliberals in borrowing countries. The statistical tests suggest that as the proportion of neoliberals in the top economic policymaking positions increases, the loans that the IMF makes available tend to be less onerous (in terms of the number of binding conditions) and more generous (in terms of their size relative to the borrowing country's quota). Once a program is underway, governments with neoliberal policymakers are much more likely to receive a waiver for noncompliance with binding conditions.

In this way neoliberal economic policymakers in borrowing countries become more valuable for the executive. The second step in my argument is to link the Fund's favorable treatment of neoliberal economic policymakers to the incentives facing government leaders. Leaders ultimately control the appointment and retention of top economic officials. Executives are themselves concerned with political survival, and these concerns are heightened during period of economic distress. Leaders in all types of regimes face a rising hazard in the context of economic crisis. If a member of the policy team can credibly claim to deliver better treatment by an international institution that is the economic lifeline for many low- and middle-income countries, then the executive has strong incentives to retain that policymaker in a position of influence.<sup>17</sup>

Executives incur some cost when they engineer the removal of top economic officials. In normal times leaders may face pressure to jettison neoliberal policymakers in favor of officials that hold different economic beliefs; assuming that leaders appoint

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<sup>17</sup> The argument is similar to a claim made by Robert Bates, who observes: "technocrats possess expertise – private information. Most politicians cannot directly evaluate that expertise; they can only evaluate its results." Bates goes further to argue that neoliberal economic policymakers (he uses the term "technocrats") become secure in their positions when the policies they pursue "serve the interests of powerful groups" (1994: 32). But several scholars – including Bates – have demonstrated that economic interests are extremely fluid and malleable in periods of economic crises, such that referring to the interests of producer groups does not tell us much about the stabilization process (Bates and Krueger, 1993; Schneider, 2004). I make the case that negotiations with the IMF provide a good opportunity for neoliberals to clearly demonstrate the value of their credentials to politicians.

neoliberals in low- and middle-income countries with the expectation that they will pursue a set of market-conforming policies, leaders have to weigh the costs of rolling back reform efforts against the political benefits of changing course. For example, in Argentina in the 1990s President Menem was subjected to withering criticism from his political opponents as well as members of his own party for filling the top economic positions with reform-oriented neoliberals. Upon the replacement of Domingo Cavallo by Chicago-trained economist Roque Fernandez one Argentine politician expressed the view that shared neoliberal beliefs were more far more important than the personalities of different policymakers: “we must change the dog, not its collar.”<sup>18</sup>

The cost of removing a neoliberal finance minister or central bank governor increases when the IMF is involved. For crisis-stricken governments, replacing a neoliberal policymaker with a non-neoliberal risks souring the relationship with the IMF – which implies the possibility of tougher conditions and stingier loans in the future, not to mention more contentious relations with private financial actors since the IMF acts as a gatekeeper for the international financial community.<sup>19</sup> Perhaps leaders could swap one American-trained economic policymaker for another, but this implies that there is an endless supply of neoliberal economists that are suitable (and willing) to be pulled into the policy team in borrowing countries, which is clearly not the case.<sup>20</sup>

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<sup>18</sup> “Argentina: Dropping the Pilot,” *The Economist*, August 3, 1996, pg. 37 (quote).

<sup>19</sup> After the debt crisis in 1982 private banks and official creditors usually made debt rescheduling contingent on the debtor having signed an IMF agreement (see Boughton 2001). There is a small empirical literature on the catalytic effect of the IMF, which provides mixed evidence. Bird and Rowlands (2003) do not find evidence the IMF programs lead to greater portfolio investment, and the results in Jensen (2004) suggest that IMF programs actually reduce flows of FDI to developing countries. Brune, Garrett, and Kogut (2004) find evidence, on the other hand, that privatization proceeds are higher in countries that are under IMF programs compared to non-IMF countries, which they attribute to the Fund’s seal of approval for reform efforts.

<sup>20</sup> I focus on the survival of individual policymakers in the tests in the next section rather than the issue of replacement suggested here. I provide some indirect evidence of this dynamic in the concluding part of the chapter, where I show that the proportion of neoliberal policymakers in government is higher in countries that spend more time under IMF programs.

The mechanism linking the political survival of policymakers to the presence of IMF lending programs is based on an observable empirical regularity: the IMF gives preferential treatment to governments in which the top economic officials are neoliberals. Leaders of governments that are under IMF programs have strong incentives to keep policymakers that deliver results in office. Without offering some tangible benefits for the leader that controls their political fates, the cooperative spirit and shared culture among likeminded economic authorities and the IMF's staff and management is unlikely to have much of an effect on the political survival of neoliberals.<sup>21</sup>

The mechanism I propose suggests a primarily materialist explanation that can be applied to the spread of neoliberal economic ideas in the developing world. This runs against important work that highlights the persuasive power of international institutions as teachers of norms and ideas.<sup>22</sup> In part this reflects a difference in purpose: I am interested in how the Fund's lending behavior affects the political survival of economic policymakers whereas the more self-consciously constructivist work on international organizations tends to focus on how external agents convince domestic audiences of the legitimacy of certain policies through normative suasion.

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<sup>21</sup> This is not to say that the IMF's role in shaping a normative consensus around neoliberal ideas was unimportant. By the early 1980s neoliberal policymakers clearly found a receptive audience among the wealthy democracies and powerful international organizations, even if their ideas were not widely shared within their own countries. But the links between an intellectual consensus emanating from the United States, Wall Street, and the Fund on the one hand and the prospects for political survival on the other are fuzzy. Simmons and Elkins (2004: 173-74) suggest that there are reputational costs to governments that fail to ascribe to the dominant economic ideas. If this is the case, then there should be many more neoliberal policymakers in the developing than we actually observe (I provide some descriptive statistics on the share of neoliberals in government in the next section of the chapter). The shared neoliberal ideas that animate the IMF are important in this context because they shape how the Fund interacts with its borrowers, but it is the tools that Fund possesses which influence political processes in borrowing countries.

<sup>22</sup> For example, Checkel 2005; Epstein 2008; Finnemore 1993; Kahler 1992; Schimmelfennig and Sedelmeier 2005. Simmons, Dobbin, and Garrett point to the teaching function of international institutions: "international institutions are another natural conduit for learning, and, especially, for organized pedagogy. The IMF, for example, regards its research function as a way to disseminate the lessons of earlier liberalizers (usually developed countries) to the rest of the world (primarily the developing countries)" (2006: 798).

My aims in this chapter are limited. I develop an explanation rooted in domestic political processes from which I derive a straightforward testable implication: *neoliberal economic policymakers in governments under IMF programs have a lower hazard than non-neoliberal policymakers in countries under IMF programs*. I regard the analysis in this chapter as a complement to the branch of research that views international institutions primarily through the lens of normative suasion.<sup>23</sup> The remaining sections of the chapter focus on testing the arguments.

### **Testing the Argument**

For the event history models of political survival I draw on the data I collected on the backgrounds of key economic policymakers in 90 low- and middle-income countries between 1980 and 2000. The analysis is limited to the two top economic officials in borrowing countries: finance ministers and central bank governors. In most – but not all – countries these are the officials that negotiate and sign the IMF agreements.<sup>24</sup> I do not examine the survival of heads of governments; there is by now an active literature on leaders, and the dynamics that govern the removal of leaders are very different from the processes by which economic policymakers gain and lose office.<sup>25</sup>

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<sup>23</sup> The IMF clearly makes some attempts to teach neoliberal economic ideas to government officials, as evinced by its training institutes. That said, I confess some skepticism about the Fund's ability to persuade governments through the power of the better argument. If the IMF's goal is to convince policy elites of the legitimacy of its recommendations, then it has been remarkably unsuccessful. Some recent comments by an Asian finance minister capture a widely-held view of the Fund in many quarters: "most Asian countries would rather be dead than turn to the IMF." Quentin Peel, "Political will for meaningful reform of IMF is still lacking," *Financial Times*, March 17, 2009: pg. 2.

<sup>24</sup> In a subset of countries other policymakers (for example, the prime minister, planning minister, or special economic advisor) are signatories in addition to the central bank head and the finance minister. I gathered data on these additional policymakers for the purposes of creating the *proportion neoliberal* variable utilized in the previous chapter. Since the data on other types of policymakers were gathered for relatively few countries I restrict the tests to finance ministers and central bankers, for which I have reliable data for a large number of countries over a twenty year period (1980-2000).

<sup>25</sup> Since Bienen and van de Walle's path-breaking analysis, quantitative studies of the factors that affect the tenure of executives have proliferated. A comprehensive review is far beyond the scope of this article; for some important research, see Bienen and van de Walle 1991; Chiozza and Goemans 2004; Goemans 2008; Londregan and Poole 1990; Marinov 2005; Bueno de Mesquita et al 2003.

The argument that I develop above applies to both finance ministers and central bank governors. It might seem odd to argue that both types of economic policymakers are subject to similar political forces. After all, finance ministers are political appointees that are members of cabinets, whereas central banks in many countries are in principle insulated from political pressures. Most countries have a legal term of appointment for central bank governors; in wealthy democracies, the executive's ability to intervene in the functioning of central banks is severely proscribed.<sup>26</sup> But the independence of central banks in many, if not most, developing countries is more myth than reality. Take Argentina as an example. The legal duration of central bank governors is four years, but few Argentine central bankers have made it past their first year, let alone served for the duration of their term. The average time in office for the 25 individuals that ran Argentina's central bank between 1970 and 2000 was 372 days. When I remove the four neoliberals that occupied the position (who survived on average for 1,096 days), the average duration of the heads of the Argentine central bank declines to just 213 days in office. For this reason Cukierman and others measure central bank independence in low- and middle-income countries using the turnover rate of governors rather than the bank's legal independence.<sup>27</sup> While it is true that there has been a move toward greater independence in developing countries, this movement did not gather steam until the 1990s.<sup>28</sup> For my purposes it is reasonable to treat finance ministers and central bank governors as similarly vulnerable to political currents in the 90 low- and middle-income countries that

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<sup>26</sup> It is worthwhile, however, to note that Adolph (2004), Grabel (2000, 2003), Hall (2008), and McNamara (2002), writing from very different analytical perspectives, each describe how independent central banks are fundamentally political projects.

<sup>27</sup> Cukierman 1992; Dreher, Sturm, and de Haan 2008.

<sup>28</sup> Alan Blinder remarks that around two dozen countries – he does not distinguish between developed and developing worlds – embarked on a path of greater central bank independence after 1989 (2004: 65). McNamara, using a legal definition based on Cukierman (1992), provides data showing that, worldwide, the number of legally independent central banks jumped from 5 in 1990 to 37 in 2000.

comprise the sample.

Below I describe the construction of the dependent variable and the covariates that are included in the event history analysis.

*Dependent Variable:* I measure the length of time in days between the date of entry and date of exit for finance ministers and central bank governors. Following Goemans (2008), I divide each policymaker's time in office into annual observations. This allows me to include covariates that change in value from year to year.

The dates of entry and exit from office for policymakers were collected from two main sources: the CIA's *Chiefs of State and Cabinet Members of Foreign Governments* and *Keesings Record of World Events*. The data were supplemented with additional records of entry and exit dates from the archives of the *Financial Times*, *New York Times*, *BBC Summary of World Broadcasts*, and, in some cases, from direct correspondence with finance ministries and central banks. The data collection effort yielded two separate datasets. I have complete data for 905 separate finance ministers (810 of which are "failures," meaning that they exit the dataset at some point during the twenty year observation window) and 471 central bank governors (396 failures). The smaller number of central bankers is a consequence of longer average duration compared to their counterparts in the finance ministry, the exclusion of a number of African countries that are in monetary unions and do not have independent central banks, and difficulties identifying precise entry dates for central bankers in several countries that appear in the finance ministers dataset. When the entry or exit dates are uncertain, the official (or country, if information is very unreliable) is excluded from the dataset. The data are right-censored, meaning that policymakers that remain in office after December 31, 2000 contribute information on survival but are not recorded

as failures.<sup>29</sup> The average duration for the 810 finance ministers that exited office at some point in the two decades was 711.6 days.<sup>30</sup> Central bank governors fare better than their counterparts in the finance ministry. The mean duration for the 396 central bankers that entered and exited the dataset was 1,200 days.

*Explanatory Variables:* My main interest in this chapter is testing the central observable implication from the causal mechanism developed in the previous pages: neoliberals survive in office longer than their non-neoliberal counterparts when both are under IMF agreements. I include a range of covariates that are theoretically linked to the survival of policymakers to make sure that my findings hold in the presence of potentially confounding factors. To my knowledge, this is the first systematic test of the determinants of the survival of economic policymakers in developing countries; consequently, I turn to research on the survival of leaders and cabinets to guide the selection of additional covariates.

To examine the relationship between the IMF, neoliberals, and political survival I follow the same approach as in chapter 3 to assess whether finance ministers and central bank governors hold neoliberal economic beliefs.<sup>31</sup> Policymakers that received a masters degree or above from a highly ranked American economics department and/or have sustained experience as an official within the IMF and the

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<sup>29</sup> I also treat policymakers that exit by death from natural causes or from an incapacitating illness as censored. The complete list for both finance ministers and central bankers includes the following policymakers: Cesar Barrientos, Paraguay (died of natural causes at an advanced age); Gibson Chigaga, Zambia (died of a heart attack); Sheriff Seesay, Gambia (resigned due to ill health); Ousman Koro-Ceesay, Gambia (murdered); Miguel Roig, Argentina (died of heart attack after a week in office); Ariston Chambati, Zimbabwe (died of AIDS-related pneumonia); Bernard Chidzero, Zimbabwe (left office after suffering stroke); Moulay Hassan Ben-el-Mehdi, Morocco (died after long illness); Amir Jamal, Tanzania (resigned due to illness); Enzo Debernardi, Paraguay (resigned due to illness), Gerhard de Kock, South Africa (resigned in June 1989 due to cancer, died in August).

<sup>30</sup> This does not mean that there are 810 different finance ministers that exit the dataset at some point between 1980 and 2000; if a policymaker is removed but returns to office at a later date, I record the entry as a new policymaker.

<sup>31</sup> In chapter 2 I give a tractable definition of the term neoliberal; chapter 3 justifies the use of educational background and experience with the Fund and World Bank as proxies for holding neoliberal economic ideas. I do not rehash the extended discussion of the measurement of neoliberals in the previous chapter here.



World Bank are coded as neoliberals. To give a sense of the distribution of neoliberal policymakers across the countries in the sample over time, figures 4.1 and 4.2 trace the proportion of developing countries with a neoliberal finance minister (figure 4.1) and neoliberal central banker (figure 4.2) between 1980 and 2000.<sup>32</sup>

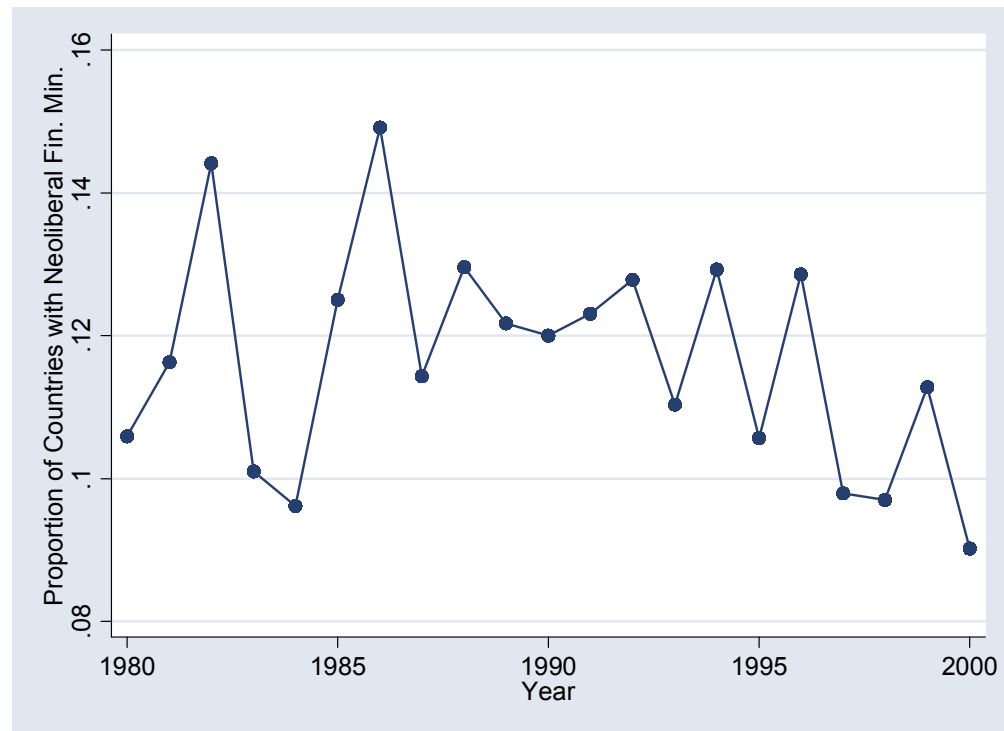


Figure 4.1: Proportion of Countries with a Neoliberal Finance Minister

<sup>32</sup> An interesting pattern emerges in the plots of the distribution of neoliberals over time: while the proportion of countries with neoliberal finance ministers stays relatively consistent over time, the number of neoliberal central bankers follows an upward trajectory, particularly after 1991 (perhaps corresponding to the move toward greater central bank independence at the time). Given that my interest is in political survival, I leave the question of why we observe a greater number of neoliberals heading the central banks in the countries in my sample for future work.

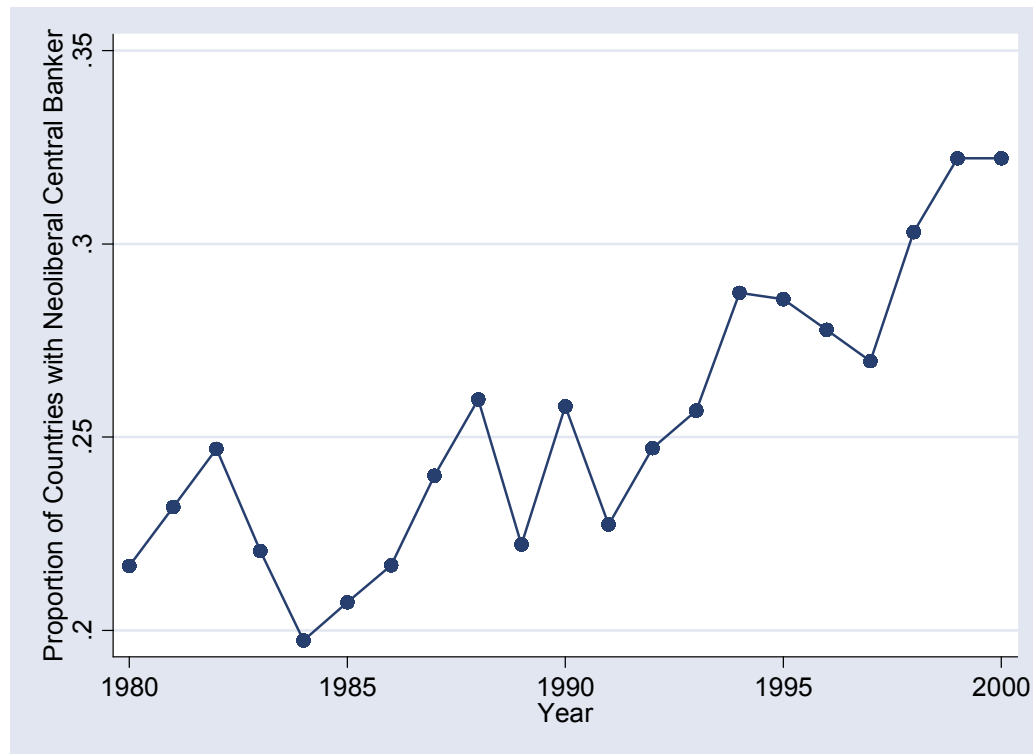


Figure 4.2: Proportion of Countries with a Neoliberal Central Bank Governor

I draw additional covariates from two types of explanations for the survival of top economic leadership.

In the first approach the risks that individual economic policymakers face are mainly influenced by specific attributes of the governments in which they serve (for example, the ideological distance between parties in the government), the broader set of political institutions related to regime type (democratic or autocratic), and political events such as elections, no-confidence votes, and coups that lead to the replacement of the head of government.

The most extensive branch of research on survival concerns the duration of governments. Thirty years of research has produced a degree of consensus on the factors that explain the duration of governments in about twenty rich Northern

democracies.<sup>33</sup> But for my purposes the cabinet duration literature offers few lessons. I am interested in the survival of top economic officials in low- and middle-income countries, most of which are either autocratic, mixed regimes, or non-parliamentary democracies. Further, evidence suggests that even within the pool of rich parliamentary democracies many government officials are removed prior to a government termination or retain their positions after a termination and the formation of a new government. According to data collected by Huber and Martinez-Gallardo, the “factors affecting government terminations should be only loosely related to factors affecting ministerial terminations.”<sup>34</sup>

A better place to look for possible covariates of durability of economic policymakers is the growing body of research on the tenure of political leaders. Here the evidence suggests that regime type has an important effect on the prospects for survival. Leaders in democratic regimes have more uncertain futures than autocratic leaders.<sup>35</sup> The argument indicates that we should also expect to find that economic policymakers face greater hazard in democratic regimes. Consequently I include a set of dichotomous variables as proxies for the domestic institutional explanation of varying survival times. I use the same approach as Chiozza and Goemans: dummies for *mixed regimes*, *parliamentary democracies*, and *presidential democracies* are created based on scores from the Polity IV dataset, with autocratic regimes as the excluded reference category. Democracies are countries that receive a score of 7 or higher on the 21-point Polity scale; regimes between -6 and +6 are considered *mixed*, and the remaining countries are coded as autocratic. Among the pool of democratic countries, Chiozza and Goemans distinguish parliamentary from presidential

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<sup>33</sup> For example, Browne et al 1988; Diermeier and Stevenson 1999; King et al 1990; Warwick 1992, 1994; One very recent attempt to extend the models of government survival to the post-communist setting is found in Somer-Topcu and Williams 2008.

<sup>34</sup> Huber and Martinez-Gallardo 2008: pg. 171.

<sup>35</sup> For the logic of the argument see Bueno de Mesquita et al 2003.

systems.<sup>36</sup> I rely on their coding of political systems in the analysis. I expect to find that the odds of losing office are higher in democracies than in autocracies, and, among democracies, should be higher in parliamentary systems due to the greater instability in coalition governments.

I include two other covariates to capture political factors that influence survival. Frequently the replacement of the leader of a country leads to turnover among all of the important officials from the previous government. To account for this dynamic I create an indicator ( $\Delta Leader$ ) that takes a value of one if the chief of government was replaced at any point in the policymakers' tenure.<sup>37</sup> I also create a variable (*Caretaker/Transition*) that measures whether a finance minister was a member of an interim government (the variable does not apply to central bankers, who are not cabinet members).<sup>38</sup> Both of these covariates are expected to dramatically increase the odds of replacement for policymakers.

Economic performance affects the prospects for policymakers in all types of regimes. The most consistent finding from duration models of leaders and governments is that hazard rises as the economy worsens. Leaders and ministers that preside over spiraling inflation and shrinking GDP frequently find themselves out of power. The relationship between macroeconomic conditions and political survival should be heightened for finance ministers and central bank governors. After all, their jobs involve the management of the economy. If the economic situation degrades, they bear primary responsibility. It has long been recognized that the stewards of the economy face special risks. Richard Cooper's (1971) classic study, for example,

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<sup>36</sup> Chiozza and Goemans 2004: pg. 617.

<sup>37</sup> This includes the policymaker's last day in office. The measure captures the replacement of an entire government, for example, after an election or a coup. The list of leaders and their dates on entry and exit from office comes from the *Archigos*, Version 2.8 dataset put together by Hein Goemans, Kristian Skrede Gleditsch, and Giacomo Chiozza.

<sup>38</sup> I relied on the *Keesings Record of World Events* resource to generate the *caretaker* variable.

revealed that in a majority of the 24 cases he studied the finance minister was removed after a large devaluation of the currency.

I rely on three variables to assess the impact of economic conditions on political survival. High inflation is an indicator of poor economic performance. Consequently, I use a transformed measure of annual change in consumer price inflation.<sup>39</sup> Economic growth has been linked to the survival of leaders in many studies, and it is included in both of the models reported here.<sup>40</sup> Finally, I incorporate a covariate to account for the impact of dramatic events in the exchange market. The *currency crisis* indicator comes from Laevan and Valencia; it takes a value of one in the year in which a country experiences a nominal devaluation of at least thirty percent that is also at least a ten percent hike in the rate of depreciation compared to the previous year.<sup>41</sup> High inflation, low (perhaps negative) GDP growth, and the presence of severe exchange market pressure are all expected to heighten the risks for finance ministers and the heads of central banks.

### *Methodology*

Before discussing the estimation techniques I employ in the analysis, it is necessary to explain the manner in which the tests are designed. Recall that I am evaluating the claim that the hazard for neoliberal finance ministers and central bank governors is lower under IMF programs. To observe the impact of being a neoliberal on political survival I condition on the presence of the IMF; in other words, *conditional on being under an IMF program*, neoliberals should remain in office

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<sup>39</sup> To reduce skewness due to episodes of hyperinflation, I transformed the measure of inflation by the following formula:  $(\pi / 100) / (1 + (\pi / 100))$ , where  $\pi$  is the annual percent change in the consumer price index. This is the same formula used in Dreher, Sturm, de Haan 2008.

<sup>40</sup> Data for inflation and GDP growth are taken from the World Bank's *World Development Indicators*.

<sup>41</sup> Laevan and Valencia (2008) update the measure of currency crisis originally developed by Frankel and Rose (1996).

longer than non-neoliberals after accounting for other factors.<sup>42</sup> Consequently I restrict the sample to only those countries under active IMF programs during the 1980 to 2000 period.<sup>43</sup> This strategy, coupled with some missing data on the economic covariates, reduces the number of finance ministers I observe to 539 (401 are failures) and central bankers to 295 (192 failures).

I make use of the workhorse of event history modeling, the Cox proportional hazards model, in the data analysis. The Cox model has become the preferred approach to analyzing survival data because of its flexibility: although the covariates are parameterized, the shape of the baseline hazard is not specified.<sup>44</sup> Unless we have a very strong prior belief about the shape of the underlying hazard over time (rising, decreasing, constant), there is no reason to risk biased estimates by forcing the hazard to take a specific form. I use the Efron method to handle coterminous failure events in

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<sup>42</sup> The wrong test would be to compare the survival of neoliberals under IMF programs to the survival of non-neoliberals that are *not* under IMF programs; in this case it would be impossible to tell whether differing hazards were due to the IMF or neoliberal credentials. Looking only at IMF borrowers enables me to observe whether being a neoliberal under the IMF offers the anticipated payoff in terms of lower hazard. This approach also mitigates some of the concerns about selection effects. For example, if I compared the survival of neoliberals in countries that are under IMF programs to neoliberal policymakers in countries without IMF programs, one might reasonably ask whether officials that are more durable (for reasons that are potentially unobservable) disproportionately seek out IMF funding. It does not make sense to claim that more durable policymakers, once in office, obtain neoliberal credentials, since the experiences that transmit neoliberal economic beliefs in my coding scheme must occur *prior* to gaining office. That said, there may be unmodeled aspects of the appointment process that differ between neoliberals and non-neoliberals and subsequently affect survival rates – but without strong priors about why the appointment process should be different for the two populations, there is no reason to be overly concerned with selection issues in the models. Research in political science on selection effects in survival models of the type used here is in its infancy (see Boehmke, Morey, and Shannon 2006).

<sup>43</sup> I use data from Vreeland (2003) and my own archival research on IMF lending arrangements to create an indicator that takes a value of 1 for each year that a country is under an active program and 0 otherwise. Some countries remain under Fund lending arrangements for nearly the entire observation period.

<sup>44</sup> The Cox model takes the form:  $h(t) = h_0(t)\exp(X_{it}\beta)$ , where  $X_{it}$  is the vector of covariates and  $h_0(t)$  represents the unspecified baseline hazard. For a very lucid discussion of the Cox model, see Box-Steffensmeier and Jones 2004: pp. 47-67. Box-Steffensmeier and Jones make their view about handling multivariate analysis of duration data clear: “apply the Cox model...The Cox model makes no assumptions about the distributional characteristics of the baseline hazard rate, yet can provide estimates of the covariates of interest that have desirable properties allowing the usual kinds of hypothesis tests” (2004: 193).

the data.<sup>45</sup>

I make two modifications to the basic Cox hazard model. The first modification concerns country-level heterogeneity in the durability of policymakers. It is clear from a quick perusal of the data that the rate of turnover of economic policymakers is very high in some countries and relatively low in others. Based on her country's record, Maria Elsa Viteri, the current Ecuadorian finance minister, should not get too comfortable: between 1981 and 2000 there were 25 different finance ministers in Ecuador. By comparison Colombia, which shares a border with Ecuador, had 11 finance ministers during the same period. For some (possibly unobservable) reason, policymakers in certain countries may be more prone to failure. To handle country-specific heterogeneity, I add a parameter to the specification (a "frailty" term) which is akin to a random effect. For identification, the unmeasured frailty parameter ( $\nu$ ) is sampled from a Gamma distribution and is assumed to have a mean of 1 and an unknown variance equal to  $\theta$ .<sup>46</sup>

The other modification concerns the proportionality assumption of the Cox model. The assumption of proportional hazards implies that the effect of covariates on the hazard is constant over the time that each policymaker is in office. If the proportionality assumption is violated, a correction (an interaction between the covariate and the natural logarithm of time) has to be applied to obtain the correct estimates.<sup>47</sup> I first implemented global tests for nonproportionality in both datasets, which were easily rejected. I then followed standard practice and examined plots of scaled Schoenfeld residuals against survival times.<sup>48</sup> The only covariate that displayed clear patterns of nonproportionality was the transformed inflation variable.

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<sup>45</sup> Box-Steffensmeier and Jones 2004: 55.

<sup>46</sup> Box-Steffensmeier and Jones 2004: pp. 142-48; Chiozza and Goemans 2004: 607.

<sup>47</sup> Box-Steffensmeier, Reiter, and Zorn 2003.

<sup>48</sup> Blossfeld, Golsch, Rohwer 2007: pp. 233-37; Box-Steffensmeier and Jones 2004: pp. 120-21, 131-39.

Consequently, the models include *inflation* as well as an interaction between the covariate and the log of time.

I report coefficients rather than hazard rates in the presentation of the results in the next section. Negative coefficients imply a decreasing hazard (longer survival); positive coefficients indicate that the covariate increases the risk of losing office.<sup>49</sup> Tables 4.1 and 4.2 give descriptive statistics for each of the datasets employed in this part of the chapter's data analysis.

Table 4.1: Summary Statistics (Based on Model of Survival of Finance Ministers)

<i>Variable</i>	Observations	Mean	Std. Dev.	Minimum	Max.
Neoliberal	1,253	0.13	0.34	0	1
Caretaker	1,253	0.02	0.13	0	1
$\Delta$ Leader	1,253	0.12	0.32	0	1
Mixed	1,253	0.42	0.49	0	1
Parliamentary	1,253	0.12	0.33	0	1
Presidential	1,253	0.24	0.43	0	1
Currency Crisis	1,253	0.07	0.26	0	1
Inflation	1,253	0.16	0.19	-0.13	0.97
Inflation $\times$ $\ln(t)$	1,253	0.98	1.10	-0.85	7.08
GDP growth	1,253	2.53	4.98	-32.12	18.66

Table 4.2: Summary Statistics (Based on Model of Survival of Central Bankers)

<i>Variable</i>	Observations	Mean	Std. Dev.	Minimum	Max.
Neoliberal	846	0.27	0.44	0	1
$\Delta$ Leader	846	0.13	0.34	0	1
Mixed	846	0.42	0.49	0	1
Parliamentary	846	0.15	0.35	0	1
Presidential	846	0.24	0.43	0	1
Currency Crisis	846	0.07	0.26	0	1
Inflation	846	0.21	0.21	-0.13	0.97
Inflation $\times$ $\ln(t)$	846	1.32	1.20	-0.85	6.64
GDP growth	846	2.50	5.08	-32.12	18.66

<sup>49</sup> I interpret the substantive impact of coefficients in terms of percentage change in the hazard. I use the following simple formulas to assess the impact of unit changes in a covariate on either increasing or decreasing the hazard rate for policymakers:  $[1 - e^{\beta} * 100]$  for negative coefficients and  $[(e^{\beta} - 1) * 100]$  for positive coefficients obtained from the Cox model. See Box-Steffensmeier and Jones (2004: 60) for a different formula which produces the same point estimates.



## Do Neoliberal Policymakers Survive Longer under IMF Programs?

Before presenting the full set of results from the multivariate analysis, I use basic descriptive statistics and diagnostic plots to get a sense of whether there are any significant differences in survival rates between neoliberal and non-neoliberal policymakers under IMF programs. In table 4.3 I compare the mean duration (in days) of neoliberal and non-neoliberal policymakers under IMF programs.<sup>50</sup>

Table 4.3: Average Duration of Policymakers under IMF Programs (1980-2000)

<i>Type</i>	<b>Mean Duration of Economic Policymakers (in days)</b>		T-stat for diff. of means (p-value)
	Yes	No	
Neoliberal Finance Minister?	<b>958.23</b> ( <i>N</i> = 48)	<b>689.16</b> ( <i>N</i> = 381)	<b>2.17</b> (0.03)
Neoliberal Central Banker?	<b>1,477.95</b> ( <i>N</i> = 40)	<b>999.53</b> ( <i>N</i> = 156)	<b>2.45</b> (0.01)

The differences are striking. The average duration for neoliberal finance ministers under IMF programs is 958 days compared to 689 days for non-neoliberals. The hypothesis test for difference of means produces a p-value of 0.03, indicating that the difference is statistically significant. The same exercise for the heads of central banks produces similar results: neoliberal central bankers survived, on average, 479 days longer than non-neoliberals in borrowing countries. The difference is not trivial ( $t = 2.45, p = 0.01$ ).

Figure 4.3 and 4.4 below provide another cut at the issue. In the figures I compare Kaplan-Meier survivor functions for neoliberal and non-neoliberal finance ministers (figure 4.3) and central bank governors (figure 4.4) in IMF countries.

<sup>50</sup> I only include policymakers that have “failed” on or before December 31, 2000 in the table. The right-censored policymakers are not included in the construction of the mean durations.

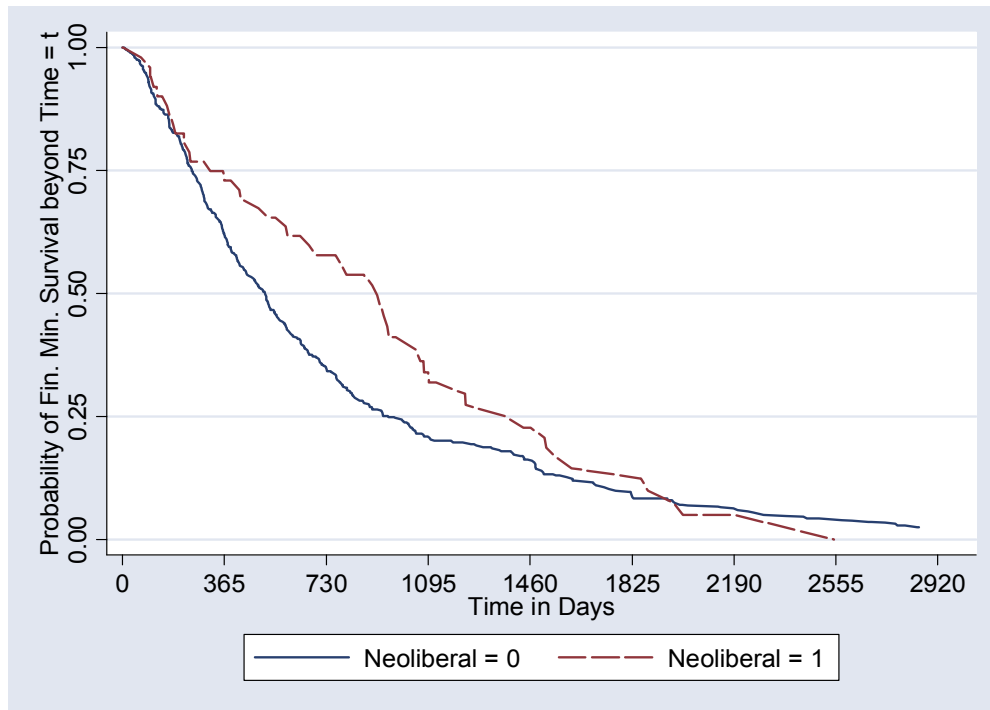


Figure 4.3: Kaplan-Meier Survival Estimates for Finance Ministers under IMF Programs, Stratified by *Neoliberal*

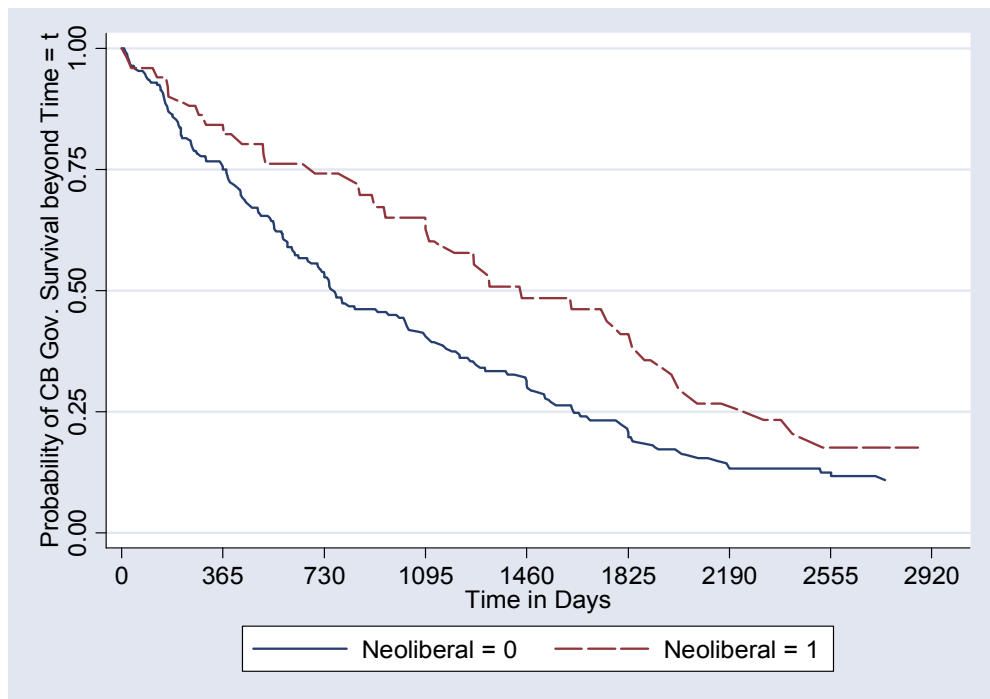


Figure 4.4: Kaplan-Meier Survival Estimates for Central Bankers under IMF Programs, Stratified by *Neoliberal*

The figures tell an interesting story. Only 62 percent of non-neoliberal finance ministers in countries under active IMF programs make it past the one year mark, while one year after the date of appointment 73 percent of neoliberals remain in office. By two years after the date of appointment the differences between neoliberal and non-neoliberal finance ministers are more pronounced: 35 percent of non-neoliberals make it past the 730 day mark, whereas 58 percent neoliberals in borrowing countries are still in office after two years. Only after five years do the survivor functions intersect (9 percent of non-neoliberals and 10 percent of neoliberals in countries with IMF programs survive past 1,882 days).<sup>51</sup>

Figure 4.4 illustrates that difference in survivor functions between neoliberals and non-neoliberals is even greater for central bank governors. By the end of the first year following appointment there is a ten point gap between neoliberals (84 surviving to that point) and non-neoliberals (75 percent). The gap increases as time passes: after four years 48 percent of neoliberal central bank governors in countries under IMF programs are still in power, compared to just 30 percent of bankers that do not have neoliberal credentials.<sup>52</sup>

To see whether these differences persist when a range of other explanatory variables are included in the analysis, I estimated Cox models of the survival of finance ministers (table 4.4) and central bank governors (table 4.5) with the set of covariates described in the previous section.

I start with the model of the survival of finance ministers. Several interesting patterns emerge.<sup>53</sup> Compared to their counterparts in autocratic regimes, finance

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<sup>51</sup> I used logrank tests to assess whether the differences in survivor functions were statistically significant. The test reveals that the difference between neoliberal and non-neoliberal finance ministers under IMF programs is in fact significant ( $\chi^2 = 4.22$ ,  $p = 0.04$ ).

<sup>52</sup> The logrank test confirms that the difference in survivor functions between neoliberal and non-neoliberal central bankers is highly significant ( $\chi^2 = 6.03$ ,  $p = 0.01$ ).

<sup>53</sup> Note that the country-specific frailty parameters ( $\theta$ ) are significant, which indicates that they should be included in the models.

ministers in democracies and mixed regimes face greater odds of removal. For finance ministers under IMF programs, presidential regimes provide the riskiest institutional setting: the coefficient on the *presidential democracy* covariate indicates a 57 percent increase in the hazard of removal. Other domestic political factors that increase the hazard include whether a finance minister is a member of a caretaker government (which almost by definition involves a shorter duration) and turnover of the head of state. According to the results in table 4.4, replacement of the leader in countries under IMF programs increase the odds that a finance minister will be removed by 250 percent.

Table 4.4 shows that economic conditions matter; it is noteworthy, however, that in the sub-sample of IMF borrowers two covariates expected to be related to survival – currency crises and economic growth – do not achieve conventional levels of statistical significance. Inflation has an interesting impact on the political survival of finance ministers in the subsample: in the early stages of a policymaker's time in office, high inflation is deadly; however, the impact of the *inflation* covariate dissipates over time (based on the negative coefficient for the interaction between *inflation* and the log of time). Few finance ministers can survive a bout of hyperinflation, but for those that do continued price instability has diminishing effects on their prospects for survival.

Table 4.4: The Survival of Finance Ministers in Borrowing Countries

<i>Covariates</i>	DV: Survival of Fin. Mins. (in days)
Neoliberal	-0.343* (0.175)
Caretaker/Transition Govt.	2.241*** (0.317)
Inflation	15.642*** (1.017)
Inflation $\times$ $\ln(t)$	-2.556*** (0.266)
GDP growth	-0.013 (0.011)
Currency Crisis	0.259 (0.196)
Mixed Regime	0.298 (0.160)
Presidential Democracy	0.453* (0.182)
Parliamentary Democracy	0.372 (0.210)
$\Delta$ Leader	1.253*** (0.122)
Number of observations	1253
Number of subjects	539
Number of failures	401
Time at risk	310212
Frailty parameter ( $\theta$ )	0.085, $p = 0.013$
Log-likelihood	-1914.401
Wald $\chi^2$	261.41
Probability $> \chi^2$	0.0000

Note: coefficients from Cox proportional hazard model with country-specific frailty terms sampled from a gamma distribution; standard errors in parentheses below coefficients. \* $p < 10\%$ ; \*\* $p < 5\%$ ; \*\*\* $p < 1\%$

The significant negative relationship between the *neoliberal* covariate and the survival of finance ministers under IMF programs provides evidence in favor of the mechanism I lay out in the early sections of the chapter. Based on the estimates in table 4.4, neoliberal finance ministers are approximately 29 percent less likely to be removed from office than non-neoliberals in countries that borrow from the Fund. The most important implication from the results of the Cox hazard model of the survival of

finance ministers is that neoliberal policymakers receive a political boost under IMF programs – and that this finding persists when a range of additional explanatory factors are measured and included alongside the *neoliberal* covariate.

The results of the survival analysis of central bankers in countries under IMF programs dovetail with the findings for finance ministers in several ways. Inflation damages the prospects for survival (though the impact decreases with time), economic growth is helpful, and central bankers find it difficult – though less difficult than finance ministers – to survive the removal of chief of government (the hazard is increased by 67 percent for central bank governors when the executive is replaced compared to an increase of 250 percent for finance ministers). The main difference in findings for the two types of top economic officials is that the proxies for regime type have no impact on the duration of central bank governors. There are apparently no significant differences in the risks for central bankers in democratic, mixed, or autocratic regimes among the pool of countries that borrow from the IMF.

The relationship that I am most interested in is between the indicator of neoliberal economic beliefs and the duration of central bankers in borrowing countries. A negative and significant coefficient is additional evidence in favor of the argument that neoliberal policymakers become more valuable under IMF programs, and this is indeed what I observe: holding other covariates constant, the hazard for neoliberal central bankers in countries that turn to the IMF is 39.6 percent lower. The big coefficient and small standard error on the *neoliberal* covariate implies that its relationship with the political survival of the heads of central banks is substantively important and unlikely to be spurious.

Table 4.5: The Survival of Central Bank Governors in Borrowing Countries

<i>Covariates</i>	DV: Survival of Cent. Bankers (in days)
Neoliberal	-0.505* (0.214)
Inflation	13.331*** (1.962)
Inflation $\times$ $\ln(t)$	-2.008*** (0.317)
GDP growth	-0.035* (0.017)
Currency Crisis	0.071 (0.296)
Mixed Regime	-0.124 (0.247)
Presidential Democracy	-0.128 (0.280)
Parliamentary Democracy	-0.092 (0.337)
$\Delta$ Leader	0.513* (0.199)
Number of observations	856
Number of subjects	295
Number of failures	192
Time at risk	240442
Frailty parameter ( $\theta$ )	0.396, $p = 0.000$
Log-likelihood	-798.174
Wald $\chi^2$	79.50
Probability $> \chi^2$	0.0000
Note: coefficients from Cox proportional hazard model with country-specific frailty terms sampled from a gamma distribution; standard errors in parentheses below coefficients. * $p < 10\%$ ; ** $p < 5\%$ ; *** $p < 1\%$	

Thus far I have presented several types of evidence – including comparisons of the average duration of economic policymakers, survivor functions, and multivariate Cox hazard models – and each piece of evidence has indicated that neoliberal policymakers outlast their non-neoliberal counterparts within the pool of countries that draw on the IMF’s resources. It is hard to regard the findings as anything but supportive of the central claim of the chapter, which is that discriminatory treatment in favor of neoliberal economic policymakers by the IMF

increases the value of these political agents to the executive, thus lengthening their expected time in office.

### *Alternative Explanations for the Findings*

But there are alternative explanations that might account for the patterns observed in the data on the survival of economic policymakers. Perhaps the policymakers with experiences that transmit neoliberal ideas are simply more effective stewards of the economy. In this view, neoliberal finance ministers and central bankers acquire superior technical skills that endow them with a greater capacity to handle the waves of political and economic events that buffet all policymakers (and cause many to lose their grip on political power). If this is true then the presence or absence of the IMF is relatively unimportant. Neoliberal policymakers have the right ideas and the politicians that appoint them understand that fact.

Two observations belie this view. Many successful policymakers in low- and middle-income countries were not trained in economics. Kwesi Botchwey, “Ghana’s long-serving finance minister and high priest of that country’s economic recovery,” earned law degrees from Yale and Michigan.<sup>54</sup> Fernando Henrique Cardoso, who served as finance minister before becoming Brazil’s president, was a French-trained sociologist who achieved recognition in his academic career for his work on dependency theory.<sup>55</sup> Argentina’s Jose Martinez de Hoz, hailed as an economic savior during General Videla’s military regime (1976-81), was a lawyer who forged his reputation as chairman of Acindar, Argentina’s largest steel company. Manuel Ulloa Elias, the Peruvian finance minister who “had established a reputation as a wunderkind” under President Belaúnde, was also trained in law rather than

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<sup>54</sup> Teye 1994: 40 (quote). Botchwey headed the Ghanaian finance ministry between May 1982 and August 1995; he received an LLM from Yale and SJD from the University of Michigan Law School.

<sup>55</sup> Cardoso and Faletto 1979.



economics.<sup>56</sup> Officials with experience in the top American economics departments may have expertise that enables them to identify rational, welfare-enhancing policies, but this is clearly not a necessary condition for political success.<sup>57</sup>

Nor is it the case that neoliberal policymakers are uniquely insulated from normal political dynamics in developing countries.<sup>58</sup> It is implausible to assume that leaders appoint policymakers and keep them in office solely because they accept the legitimacy (or inevitability) of the ideas promoted by neoliberals. Interests and ideas coexist in the decision-making of political leaders. A neoliberal finance minister that is able to express views “veiled by a cloak of economic legitimacy” may have a good deal of authority, but if the ideas do not offer any tangible political benefits the policymaker is not likely to remain in office.<sup>59</sup> Policies that constitute good economics are not always politically palatable. The IMF plays an important political role in this sense by raising the costs that a leader expects to pay when a neoliberal economic

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<sup>56</sup> Williamson 1994: 581 (quote). Dezalay and Garth (2002, esp. chapter 2) provide a fascinating sociological account of the how U.S.-trained economists wrested control of policymaking in Latin America from the “gentleman lawyers” that traditionally held the top positions.

<sup>57</sup> The case of Indonesia demonstrates that ostensibly rational approaches to policymaking are in fact suffused with ideological and, by extension, political implications. Throughout the Suharto era two groups of experts, economists (the so-called “Berkeley mafia”) and industrial engineers, promoted views couched apolitically in terms of efficiency which diverged “not merely on the issue of which economic sectors should be put on priority over others, but more principally, the way development ought to be pursued” (Amir 2008: 316). Control of Indonesian economic policy shifted between the two factions over time, depending on the changing political incentives facing the country’s political leadership.

<sup>58</sup> Neoliberal economists are also not above venality. For example, Daudi Balali, who served as Tanzania’s central bank governor from 1998 to 2008 after spending more than 20 years with the IMF (rising to the lofty post of Deputy Division Chief), was dismissed by President Jakaya Kikwete after evidence that the central bank had engineered false payments to non-existent companies emerged (*Keesings Record of World Events*, January 2008, pg. 48342). The Indonesian central bank head Syahril Sabirin (PhD in economics from Vanderbilt University and a former World Bank economist) was sentenced to three years in prison for his role in approving the release of state funds to fund a failing company linked to the ruling Golkar party (the conviction was later overturned; see *Keesings Record of World Events*, March 2002, pg. 44680).

<sup>59</sup> Kirshner 2003: 4 (quote). Kirshner goes further by suggesting that the legitimacy of much of what constitutes modern mainstream economic theory rests of wobbly empirical foundations; “the aggregate economic benefits of various policy decisions [financial liberalization, inflation fighting, central bank independence, etc.] are ambiguous, modest, and dwarfed by their political and differential effects” (2003: 4).

official is replaced.

If neoliberals are more durable in general, they should outlast, on average, non-neoliberals in countries that are not under IMF programs, as well. The results of simple hypothesis tests comparing the mean duration of neoliberals and non-neoliberal policymakers in cases that are not under IMF lending arrangements are shown in table 4.6.<sup>60</sup>

Table 4.6: Average Duration of Policymakers *Not* under IMF Programs (1980-2000)

<i>Type</i>	<b>Mean Duration of Economic Policymakers (in days)</b>		T-stat for diff. of means (p-value)
	Yes	No	
Neoliberal Finance Minister?	<b>852.67</b> ( <i>N</i> = 36)	<b>677.50</b> ( <i>N</i> = 345)	<b>1.46</b> (0.14)
Neoliberal Central Banker?	<b>1,355.72</b> ( <i>N</i> = 36)	<b>1,288.74</b> ( <i>N</i> = 164)	<b>0.28</b> (0.78)

The impact of the IMF appears to be decisive. While the average duration of neoliberal finance ministers exceeds the duration of non-neoliberals by 175 days, the t-statistic and its associated p-value (0.14) suggests we should view the difference with caution. The bottom row in table 4.6 shows that there is essentially no difference in the average survival of the two types of central bankers when the subsample consists of countries not under IMF programs ( $t = 0.28$ ,  $p = 0.78$ ).

The data summarized in table 4.6 imply that neoliberal policymakers are not *in general* more durable than non-neoliberals. This is strong evidence in support of the claim that the presence of the IMF confers special political advantages to likeminded policymakers in borrowing countries. But there is another plausible alternative explanation for the results of the survival analysis of top economic policymakers reported in tables 4.4 and 4.5. To this point in the chapter I have assumed that neoliberal policymakers and non-neoliberals enter Fund programs under similar

<sup>60</sup> I use the same method in table 4.3 to construct the t-tests. Only policymakers that exited the datasets at any time between January 1, 1980 and December 31, 2000 are included.

economic circumstances. I attributed the observed differences in the survival rates of neoliberals under IMF programs to the political incentives leaders face to keep IMF-friendly officials in office.

Perhaps there is a different dynamic driving the results. The findings could reflect a threshold effect. Neoliberals might be more willing to seek Fund support at the first signs that the economic situation is worsening; non-neoliberal policymakers, by comparison, might try to weather macroeconomic disturbances without IMF funding and its attendant conditions. If non-neoliberal officials only go to the Fund when the situation is truly dire, then the differences in survival rates among policymakers under IMF lending arrangements are driven mainly by the severity of the economic problems at the time that the programs are signed. It would not be surprising, then, that non-neoliberals in countries under IMF programs face greater risks if the economies they manage are consistently in worse shape.

I use simple difference of means tests to determine whether there are any systematic differences in the circumstances that drive different types of governments to the IMF. I start by selecting a set of six economic indicators that measure the relative health of a country's economy. Four of the measures – the current account balance, external debt, foreign reserves, and private capital flows – are intended to capture the degree of the borrowing country's need; borrowers with high current account deficits, high debt burdens, weak reserve positions, and abrupt reversals of foreign capital flows, face tight external constraints.<sup>61</sup> We can expect that policymakers in countries on the brink of economic collapse face a more tenuous

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<sup>61</sup> The data on external debt as a proportion of gross national income and the ratio of reserves to external debt are taken from the World Bank's *Global Development Finance* CD-ROM. I take the measure of the current account balance (as a proportion GDP) from the *World Development Indicators*. I rely on Ahlquist's (2006) dataset for the measure of portfolio capital flows (as a proportion of GDP); Ahlquist takes the raw data on net inflows of bonds and equity provided by the World Bank's *World Development Indicators* database.

political future.

I also gathered data on two basic indicators of macroeconomic conditions (inflation and GDP growth). If there are major differences in the economic conditions under which neoliberal-led governments and governments without neoliberal economic policymakers enter Fund programs, then we should see some evidence of these differences in typical measures of macroeconomic performance.

Since I want to compare economic conditions at the time that an agreement is signed, the results reported in table 4.7 are limited to years in which a *new* IMF agreement was negotiated among the 90 countries observed between 1980 and 2000 that form the sample. For example, if a country signs a three-year Extended Fund Facility agreement, I only look at the values of the economic measures in the year that the program was initiated. This approach is intended to mitigate the endogeneity problem generated by the fact that Fund programs influence the economic variables.

I create a dichotomous indicator that records whether any of the borrower's top economic policymakers – finance minister, central bank governor, or executive (or any other economic official, as identified by the signatories for each country's agreements) – was a neoliberal in the year that a new IMF program was concluded.

Table 4.7 displays the averages for each economic indicator, comparing countries with at least one neoliberal policymaker to countries without neoliberals in the first year of a new Fund program. There is no clear evidence from the simple t-tests that non-neoliberals enter into IMF programs when economic problems are more severe than those confronted by governments with top officials that share the Fund's economic beliefs. Out of the six economic indicators, only the debt/GNI ratio is consistently better in countries with neoliberals: on average, governments without neoliberals that seek IMF lending have a debt burden that is 13 points higher than the other type of government in the analysis ( $p = 0.09$ ). The other measures of economic

health, however, suggest that neoliberals do not benefit from better conditions at the time of signing. Based on the average values, neoliberal governments that go to the Fund actually have higher inflation and lower levels of reserves than their non-neoliberal counterparts – although it is worth noting that the test statistic is too small to regard these differences as meaningful. Nonetheless, the comparisons in table 4.7 do not provide much evidence to suggest that the situation facing neoliberal policymakers is consistently better than the situation facing non-neoliberal economic officials.

Table 4.7: Economic Conditions in Countries That Negotiate New IMF Loans

<i>Economic Indicators</i>	<b>Avg. Value of Econ. Indicators in Year of New IMF Loan</b>		
	Neoliberal Policymaker in Government	No Neoliberals in Government	T-stat for diff. of means (p-value)
Current	<b>-4.45</b>	<b>-5.40</b>	<b>1.35</b>
Account/GDP	( <i>N</i> = 159)	( <i>N</i> = 326)	(0.18)
Debt/GNI	<b>83.08</b>	<b>96.95</b>	<b>1.69</b>
	( <i>N</i> = 156)	( <i>N</i> = 344)	(0.09)
Reserves/Debt	<b>11.43</b>	<b>14.61</b>	<b>1.36</b>
	( <i>N</i> = 152)	( <i>N</i> = 344)	(0.17)
Inflation	<b>64.90</b>	<b>46.61</b>	<b>0.84</b>
	( <i>N</i> = 153)	( <i>N</i> = 343)	(0.40)
GDP Growth	<b>2.10</b>	<b>2.28</b>	<b>0.34</b>
	( <i>N</i> = 164)	( <i>N</i> = 360)	(0.74)
Capital	<b>0.19</b>	<b>0.13</b>	<b>0.77</b>
Flows/GDP	( <i>N</i> = 160)	( <i>N</i> = 359)	(0.44)

Putting all of the evidence in the chapter together, a clear pattern emerges: neoliberal policymakers find that their political fortunes are improved under IMF programs. The next section of the chapter asks whether this dynamic helps explain the diffusion of neoliberal policymakers throughout the developing world in the past three decades.

### **The IMF and the Diffusion of Neoliberal Policymakers**

I used data on the duration of policymakers to test a straightforward proposition: do IMF programs confer political advantages to neoliberal policymakers?

The evidence that the odds of removal for neoliberal finance ministers and central bankers decline in countries that borrow from the Fund suggests that the answer is yes. In this part of the chapter I use the findings to speculate about the relationship between the IMF and the spread of neoliberal economic ideology in the developing world.

Waves of low- and middle-income countries adopted market-conforming, externally-oriented economic policies in the 1980s and 1990s. Many explanations have been supplied to account for the “silent revolution” in economic policymaking.<sup>62</sup> One factor that is often suggested (but rarely tested) is the emergence of the carriers of neoliberal economic ideas in positions of political influence.<sup>63</sup> Writing specifically on the Latin American experience in the 1990s, Vittorio Corbo observes that many countries “have experienced drastic changes in economic policy during the past decade, moving decisively toward more stable and more open market systems...a new generation of highly trained economists, many of them graduates of first-rate academic programs in North America and Europe, has played a key role in the design and implementation of these policies and selling them to society at large.”<sup>64</sup> The observation is not limited to the South American setting. My data show that neoliberal economists, to varying degrees, gained control of the top economic policymaking positions in developing countries in all regions of the world after 1980. It is not difficult to draw a connection between the worldwide move to economic liberalization and the spread of neoliberal policymakers.

Is there a relationship between the IMF and the diffusion of neoliberal

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<sup>62</sup> The “silent revolution” is Boughton’s (2001) term. Simmons and Elkins (2004) test a wide range of explanations for the worldwide move toward liberalization in the late 20<sup>th</sup> century.

<sup>63</sup> Kogut and Macpherson (2008), Macpherson (2006), and Chwioroth (2007) are exceptions. Kogut and Macpherson purport to show that countries with more American-trained economists are more likely to privatize; Chwioroth contributes evidence that countries with neoliberal policymakers are more likely to pursue capital account liberalization.

<sup>64</sup> Corbo 2000: 63. Nicolas Arditto-Barletta, the former Panamanian president, expresses a similar claim about the spread of neoliberal economic ideas in the Latin countries: “this thinking has been introduced into Latin America by the significant number of foreign-trained Latin American PhD economists and by the international financial organizations” (1994: 459).

policymakers in the developing world? If the presence of the IMF confers political advantages to the policymakers that share the Fund's economic worldview, then there is reason to believe that neoliberals might have more influence in countries that have spent many years under the institution's conditional lending programs.

The remainder of this part of the chapter brings some preliminary evidence to bear on the question. To measure the relative influence of neoliberal policymakers in developing countries I rely on the logic that motivated the construction of *proportion neoliberal*, the key variable in the analysis of IMF treatment in chapter 2. Recall that the *proportion neoliberal* variable is an index that attempts to capture the ideational coherence of the policy team:

$$\text{Proportion Neoliberal} = \frac{\text{Number of Neoliberals in Top Policymaking Positions}}{\text{Total Number of Important Economic Policymakers}}$$

The Letter of Intent that specifies the terms of IMF agreements is signed by each country's top-ranking economic officials; I used these documents, recovered from the Fund's archives, to identify the important policymakers for each country. The policy team consists of the officials that sign the IMF agreements plus the head of government.<sup>65</sup> In chapter 3 the *proportion neoliberal* variable was only recorded for countries under high-conditionality IMF agreements between 1980 and 2000; here I extend the measure to all years for the 90 countries that comprise the sample.<sup>66</sup> As in chapter 3, *proportion neoliberal* ranges in value between 0 (no neoliberals in important economic policy positions) and 1 (a fully unified policy team in which

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<sup>65</sup> For the handful of countries that did not sign IMF agreements during the twenty year observation window (1980-2000) I record the policy team as consisting of the finance minister, central bank governor, and executive. It is worth noting that out of a total of 462 leaders in the dataset only 12 are coded as neoliberal by the criteria I develop in the dissertation (and half of the neoliberal leaders were in Latin American countries). Out of the 12 neoliberal executives, seven were in power while under an IMF program.

<sup>66</sup> In practical terms this means that if the finance minister, central banker, and planning minister signed an agreement in 1980, the policy team for that country consists of the three policymakers (plus the executive) for all years, including years that there was no IMF agreement, unless one of the positions is eliminated.

neoliberal economists occupy each of the top policy positions).<sup>67</sup> Whereas the measure was used to explain variation in IMF treatment in the previous chapter, *proportion neoliberal* becomes the dependent variable in this section of the dissertation.

Table 4.8 provides the first set of evidence in favor of the hypothesized link between time spent under IMF programs and the degree of neoliberal influence on economic policymaking in low- and middle-income countries. To measure the degree of engagement with the IMF, I create a variable that records the cumulative number of years spent under IMF programs for each country from 1970 onward.<sup>68</sup> I then divide the *cumulative IMF programs* variable into 5-year slices and calculate the average *proportion neoliberal* score for each time slice.

The descriptive statistics indicate that countries become more neoliberal as they spend more time under IMF programs. The average *proportion neoliberal* score for countries that had spent between 10 and 15 years under IMF programs since 1970 (0.175) is nearly twice the average for countries with the lowest level of experience with the Fund's conditional lending arrangements (0.094). The table shows an apparent positive relationship between time spent under IMF programs and the degree to which neoliberals control the important policymaking positions.<sup>69</sup>

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<sup>67</sup> To get a better sense of the global distribution of neoliberal policymakers, I examined the average value of *proportion neoliberal* for each of the countries in the sample over the twenty year observation window (1980-2000). Among the Latin American countries, the countries with the highest *proportion neoliberal* scores are Mexico (avg. = 0.72), Chile (0.57), Argentina (0.43), Costa Rica (0.40), and Brazil (0.38). For the post-Communist countries, the Czech Republic (0.21), Hungary (0.13), and Poland (0.06) are leaders. The sub-Saharan African countries with high *proportion neoliberal* scores include Botswana (0.45), Togo (0.24), Malawi (0.22) and Benin (0.21). Egypt (0.36), Israel (0.30), and Jordan (0.25) are the countries in the Middle East with the highest degree of neoliberal influence on economic policymaking. In South Asia, India (0.39) and Sri Lanka (0.30) have historically been most receptive to neoliberal policymakers. The Philippines (0.43), Indonesia (0.37), and Thailand (0.30) are the East Asian countries with the highest proportion of neoliberal policymakers in the period between 1980 and 2000.

<sup>68</sup> To give an example, Haiti is one of the most prolonged users of IMF resources. By 1981 Haiti had spent 11 years under IMF programs; in 2000 the country had been under IMF programs for a total of 26 years.

<sup>69</sup> The correlation between the two measures is relatively strong and highly significant ( $r = 0.187$ ,  $p < 0.0000$ ).



Table 4.8: Average Value of *Proportion Neoliberal* Variable (1980-2000) by Cumulative Number of Years in IMF Programs (5-year Increments, 1970-2000)

Cumulative Years in IMF Programs	Avg. <i>Proportion Neoliberal</i> Score (# Observations)
0 to 5	<b>0.094</b> (816)
5 to 10	<b>0.135</b> (585)
10 to 15	<b>0.175</b> (416)
15 to 20	<b>0.164</b> (253)
20 to 25	<b>0.218</b> (73)
25 to 30	<b>0.218</b> (13)

It is possible that I am picking up a relationship in the data that moves in the opposite direction – perhaps governments in which neoliberals occupy the top economic posts are more likely to seek out IMF funding. To address this possibility, I create a different variable that counts the total number of years each country spent under active IMF lending arrangements between 1970 and 1979. The single best predictor of future participation in IMF programs is past participation.<sup>70</sup> The total number of years spent under IMF programs in the 1970s has the qualities of a good instrument: it is highly correlated with future participation in IMF programs, but is not contaminated by the outcome variable (the proportion of neoliberals in the policy team between 1980 and 2000).

Table 4.9 is a tougher test of the hypothesis. Similar to the exercise in the previous page, I divide the measure of the number of years under IMF programs between 1970 and 1979 into 2-year slices, but rather than calculating the average *proportion neoliberal* score for each time slice over the entire observation period I

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<sup>70</sup> Vreeland notes that “past participation is such a strong predictor of present participation that this factor is statistically significant even after one controls for economic factors” (2007: 57). See also Nooruddin and Simmons 2006: 1018; Vreeland 2003: 89-94.

only look at the decade following 1990. By construction there is no avenue through which the proportion of neoliberal policymakers in countries observed between 1990 and 2000 could influence the degree of involvement with the Fund in the 1970s.

Table 4.9: Average Value of *Proportion Neoliberal* Value (1990-2000) by Number of Years under Fund Programs (2-year Increments, 1970-79)

Years in IMF Programs, 1970-79	Avg. <i>Proportion Neoliberal</i> Score (1990-2000) (# Observations)
0 to 2	<b>0.102</b> (678)
2 to 4	<b>0.179</b> (363)
4 to 6	<b>0.217</b> (231)
6 to 8	<b>0.222</b> (55)
8 to 10	<b>0.190</b> (66)

Table 4.9 suggests that there is good reason to think that a relationship between the IMF and the diffusion of neoliberal policymakers exists. The descriptive statistics are consistent with the claim that the presence of the IMF strengthens the political position of neoliberal policymakers in borrowing countries. Based on the raw averages, countries with extensive IMF experience in the 1970s were more likely to have neoliberals in top economic posts in the 1990s.<sup>71</sup> I interpret these findings as compelling, if incomplete, evidence that the IMF has acted as a transmission mechanism for the spread of neoliberal economic beliefs throughout the developing world.

As an additional test I look at whether the bivariate relationship holds up when a set of possibly confounding variables are included in a statistical model of the determinants of the *proportion neoliberal* variable. Because the dependent variable in

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<sup>71</sup> The correlation between *proportion neoliberal* and the number of years under IMF programs in the 1970s is suggestive ( $r = 0.198$ ,  $p < 0.0000$ ).

the analysis is constrained to lie between 0 and 1, the standard OLS estimator is inappropriate. Instead I estimate a fractional logit model, which produces correct estimates when the outcome is a ratio within the [0,1] interval.<sup>72</sup>

In addition to the indicators of IMF influence (the cumulative years under IMF programs after 1970 and the total number of years in IMF lending arrangements between 1970 and 1979) I include covariates to cover a set of possible alternative explanations for the degree of neoliberal control over economic policymaking. Richer, more democratic countries are expected to have a greater proportion of neoliberal policymakers in office. This is due to differences in the supply of neoliberal economists: students in poor, repressive countries simply have fewer opportunities to attend top foreign universities.<sup>73</sup> Four other variables that are expected to have negative effects on *proportion neoliberal* are included: a dichotomous indicator for whether a country has a socialist legal history<sup>74</sup>; a measure of per capita oil wealth<sup>75</sup>; a dichotomous variable that takes a value 1 if the executive is from a Left party and/or a Left party is dominant political force in government; and an indicator that measures the number of veto players in government.<sup>76</sup>

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<sup>72</sup> The fractional logit was developed by Papke and Wooldridge (1996) (see also Wooldridge 2002: 661). In the statistical package I use (Stata 8.0), the parameters are estimated in a generalized linear model with a binomial distribution and a logistic link function. Use of this estimation technique in political science is rare, but recent applications can be found in Tomz (2007: 180-82) and Min (2008).

<sup>73</sup> I measure wealth using GDP per capita and regime type using the Polity IV scores; both variables were used in the analysis in chapter 3.

<sup>74</sup> The indicator of socialist legal tradition comes from La Porta et al 1998.

<sup>75</sup> The measure is taken from Humphreys 2005. Sachs and Warner (2001) suggest that natural resource wealth diverts attention from more productive economic activities; Ross (2001) argues that oil income retards social changes that might otherwise lead to better governance. It is no great leap to expect that the supply of and demand for neoliberal economists is weaker in countries in which oil is the main driver of economic activity.

<sup>76</sup> Both the *Left Government* and *Veto Players* variables come from the Database of Political Institutions; see the appendix in chapter 3 for details. I expect that neoliberal economic policymakers will be less common in countries with dominant Left parties, though, as I point out in footnote 58 in chapter 3, the experiences of several left-leaning governments in Latin America that appointed U.S.-trained economists to important economic positions suggests otherwise. Chwioroth (2007a: 453) argues that governments that are constrained by multiple veto players will be less likely to appoint neoliberal policymakers, hence the inclusion of the *veto players* variable.

The results of the fractional logit model in which the dependent variable is the proportion of neoliberal policymakers in government are given in table 4.10. In the first model (column 1) the key explanatory variable is the cumulative years under IMF programs from 1970 through 2000; the second model uses the number of years under IMF arrangements in the 1970s as an instrument to avoid the possibility that governments with neoliberal policymakers disproportionately seek out IMF funding.

The purpose of the test is not to construct a definitive model to explain as much variation in the *proportion neoliberal* variable as possible; rather, I simply want to see if the story suggested in the descriptive statistics – the more experience a country has with IMF lending arrangements, the more likely it is that neoliberals occupy that country's top economic posts – finds backing when the measures of IMF influence are included in a multivariate model alongside proxies for other explanatory factors. The results are supportive: both measures of IMF influence are positive and significant. The finding that the number of years a country spent under IMF programs in the 1970s is linked to increases in the proportion of neoliberals in government in the two decades after 1980 gives confidence in the direction of the relationship.

The findings, coupled with the results of the event history models of the survival of finance ministers and central bankers, lead me to two central conclusions: (1) the IMF, through its conditional lending facilities, has been an engine driving the diffusion of neoliberal policymakers throughout the developing world in the past three decades; (2) there is a political story to explain how the IMF became the engine – by discriminating in favor of likeminded officials in borrowing countries, the Fund increased these agents' value, making it politically advantageous to appoint and retain officials that have neoliberal credentials.

Table 4.10: The IMF and the Proportion of Neoliberal Policymakers in Government

<i>Covariates</i>	(1)	(2)
Cumulative years in IMF Programs	0.024*** (0.007)	
Years in IMF Programs, 1970-79		0.039* (0.015)
GDP per capita	0.0001*** (0.00001)	0.0001*** (0.00001)
Regime Type Score	0.025** (0.009)	0.028*** (0.009)
Oil Production per capita	-6.039*** (1.232)	-6.071*** (1.310)
Socialist Legal History	-1.530*** (0.183)	-1.544*** (0.186)
Left Government	0.115 (0.095)	0.121 (0.096)
Veto Players	-0.009 (0.031)	-0.00002 (0.030)
Constant	-2.145*** (0.125)	-2.046*** (0.106)
Number of observations	1,750	1,750
Log-pseudolikelihood	-528.774	-529.825
Note: coefficients from fractional logit model of the proportion of neoliberal policymakers (1980-2000); Huber-White robust standard errors in parentheses below coefficients. *p<10%; **p<5%; ***p<1%		

## Conclusion

This chapter was motivated by a question: if the IMF systematically favors the policymakers that share the institution's neoliberal economic beliefs through its lending activities, how does this affect domestic political processes? Do likeminded economic policymakers have political advantages in countries that borrow from the Fund? Inspired by impressionistic evidence that links the IMF to the rise of neoliberal economic officials, I developed a mechanism that highlights the role that the IMF plays in valorizing the agents that possess neoliberal ideas. In my view, it is not that the IMF convinces the politicians that control the fates of top economic officials that neoliberal ideas are just good economics. Rather, appointing and retaining neoliberal economists is good politics: for countries that need the IMF's resources, the ability of

likeminded officials to deliver tangible benefits in the form of more generous, less onerous loans makes them valuable.

The bulk of the chapter focused on designing rigorous tests of the argument. I found evidence of a decreased hazard for neoliberal finance ministers and central bank governors under IMF programs. I drew further evidence to support the claim that the IMF valorizes likeminded policymakers in borrowing countries from a set of simple difference of means tests: the differences in durability between neoliberals and non-neoliberals in countries *not* under IMF programs are small, and there does not appear to be major differences in the economic circumstances that drive the two types of policymakers to seek IMF funding. In addition, I tested to make sure that the findings were not driven by the presence of a few influential observations in the data; the tests and new results are discussed in appendix that follows this chapter. Removing possible outliers actually strengthens the relationship between political survival and neoliberal credentials held by top economic policymakers.

In a second set of quantitative tests, I found evidence that countries with extensive experience under IMF lending arrangements are more likely to count neoliberals as members of the economic policy team. The perceptive observers of who noted an apparent link between the political fortunes of neoliberal economic officials and the presence of the IMF in low- and middle-income countries were right. My goal in the chapter was to explore the logic of the argument and to see if the argument held over a large number of cases in the two decades after 1980.

The findings suggest that the political effects of IMF programs are at least as consequential as the economic effects. It is widely acknowledged that economic liberalization in many developing countries over the past two decades was managed by neoliberal economists who gained access to power. The lives of billions of ordinary citizens have been affected – whether for the better or worse is a subject of intense

debate – by the freeing of markets around the world. The findings in this chapter provide the logic that ties the IMF to the growing influence of American-trained economists over economic policymaking. In this perspective, the Fund's role in the diffusion of neoliberalism comes not through its enforcement powers (i.e., conditionality), but through the institution's political role in enhancing the political fortunes of the carriers of neoliberal beliefs.

Thus far the evidence has been at a high level of aggregation. This style of analysis can be very useful: quantitative tests enabled me to see if the explanations about variation in IMF treatment and the political effects of Fund programs were generalizable. But to be certain that the relationships identified in the aggregate data are meaningful, it is necessary to dig into the details of individual cases for the kinds of evidence that cannot be accommodated in a large-N analysis. The next chapter focuses on the relationship between the IMF and one of its historically most important borrowers, Argentina. I use the case to see if the details of the Fund-Argentina relationship conform to the patterns identified to this point in the dissertation.

## Chapter 5

### The IMF and Argentina, 1976-2001

In this chapter I turn from testing the argument on a large number of cases to a detailed reconstruction of one country's experience with the Fund over a 25 year period. The country in question is Argentina, and it has had an extensive, complicated relationship with the IMF: between the March 1976 coup that brought the military government to power and the financial meltdown in December 2001, the IMF and Argentina negotiated 14 separate Letters of Intent.

There is a tragic element to the Fund's relationship with the Argentines. The massive amounts of financial and intellectual resources that the Fund deployed in Argentina proved incapable of preventing the country from careening through a series of boom and bust cycles, a pattern which culminated in the largest sovereign debt default in history. It is tempting to view the Fund-Argentina relationship through the lens of *fatalismo* that some observers apply to the whole of the country's experience in the twentieth century: Argentina appears to be a country of enormous promise that cannot be saved from itself. This is wrong, for reasons that become clearer in the pages that follow. The IMF made good and bad choices in Argentina. The goal of the chapter is to understand the process by which those decisions – about the extensiveness of the conditionality, the generosity of the support, and whether the strictures of the program would be enforced with a light or heavy hand – were made.

The Argentine case provides an excellent testing ground for the argument linking the presence of neoliberal policymakers to variation in the IMF's relationship with its borrowers.<sup>1</sup> The case study provides another source of correlative evidence,

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<sup>1</sup> It is important to note at the outset of the chapter that my main focus is on the degree to which the facts of the Argentine case conforms the explanation for variation in IMF treatment that I developed in chapter 2, rather than the impact of the IMF on the political survival of policymakers, which is explored in chapter 4. There is a practical reason for the narrower focus in this chapter. The IMF and Argentina had a lengthy, tortuous relationship in the period covered in this study, and an accurate reconstruction



albeit with more fine-grained measures and attentiveness to context than is possible in the quantitative data analysis. If I observe an episode in which an Argentine government dominated by neoliberal economists received tough treatment by the Fund, it forces me to examine why the episode is unusual; if many episodes do not fit the predictions of the theory, then there is good reason to rethink the assumptions in the analytical framework and the results from the data analysis in chapter 3. I should also see some evidence in archival materials and interviews that the IMF's officials expressed a greater degree of trust in reform efforts carried out by neoliberal policy teams. More generally, any good explanation of the Fund's lending behavior should be able to account for the important aspects of the institution's relationship with Argentina.

### **Why the Argentine Case is a Good (and Tough) Test for the Argument**

This chapter proceeds differently than most case studies. Rather than following a strictly chronological narrative, I break the case into four distinct periods. The Argentine case is bookended by two periods in which neoliberal policymakers were ascendant. Economic policy under General Jorge Videla's repressive military regime (1976-81) was guided by a group of economic policymakers led by the Economy Minister José Martínez de Hoz and central banker Adolfo Diz that shared the IMF's worldview. A decade after the Martínez de Hoz-Diz policy team was swept from office, another group of American-trained economists consolidated their hold on the top policymaking positions in Argentina. Neoliberals controlled economic policymaking in Argentina between 1991 and 2001. As I document in detail in the

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of the relationship, using multiple sources of evidence (including archival materials and interviews with participants), takes significant time and attention to detail and context. A longitudinal case study is best suited to examining the explanatory power of a single hypothesis (or a small number of hypotheses) when compared to the alternatives. Where possible, I suggest evidence linking the IMF to the political survival of Argentine policymakers, but the core focus of the chapter is on variation in the IMF's relationship with Argentina over time. I leave the task of a rigorous exploration of the IMF's effects on the political survival of policymakers in a case study setting for future work

next sections of the chapter, the IMF's treatment of the country was lenient during the two periods in which neoliberal influence was high.

In the years between 1981 and 1984, which spans the disastrous war in the South Atlantic and the transition to democracy under President Raul Alfonsin, neoliberals had minimal influence over economic policymaking in Argentina. This period, not coincidentally, marks the nadir of Fund-Argentina relations.

If the first two cases account for periods in which neoliberal influence is high, and the period between 1981 and 1984 is a low-water mark for neoliberals in Argentina, the 1985-1989 period sits somewhere in the middle. American-trained economists were able to gain access to power, but their influence over policy was circumscribed in important ways. Table 5.1 gives an overview of the four periods that form the basis of comparison in the chapter, along with predictions about the character of the IMF's treatment of the country in each period.

Table 5.1: Organization of the Chapter

Time Frame	Degree of Neoliberal Influence	Predicted Character of Relationship with IMF
1976-1981	High	Lenient
1981-1985	Low	Tough
1985-1989	Medium	Variable
1991-2001	High	Lenient

Argentina provides fertile ground for testing the argument because each of the competing explanations that I outlined in chapter 2 can be plausibly applied to the case, thanks to the country's unique political and economic characteristics. It is useful at the outset of the chapter to review the predictions that each approach makes about the pattern of relations between the Fund and Argentina.

*The Technocratic Explanation.* In this view, the IMF is an apolitical, impartial

arbiter of economic advice. For the technocratic explanation to have power, an informed but unbiased observer of the Argentine-Fund relationship would have to conclude that, *ex post*, the IMF's treatment of the country reflected the best economic theory and data available at the time. Loans should be commensurate with need, conditions should match the degree of macroeconomic dislocation, and waivers should only be issued when deviations are minor or economic circumstances drastically change in unpredictable ways. If the government behaved badly during the two periods in which neoliberal influence was high (perhaps failing to meet fiscal targets) and the Fund suspended the program, this would be strong evidence in favor of the technocratic explanation. But if the toughness of IMF treatment changed dramatically between periods even though economic circumstances were similar, we can be sure that technocratic factors are not the main cause of the Fund's lending activities in Argentina.

There are some good reasons to expect that the Fund's decision making in Argentina resembled the technocratic ideal. Argentina's economic health is important to the performance of other major countries in the region. While the period in which Argentina was one of the world's largest and most dynamic economies ended in the 1920s<sup>2</sup>, it remained an important economic power in the Southern Hemisphere, due in large part to its powerhouse agricultural sector. More importantly, Argentina has been an economically vulnerable country. In the 1980s, Argentina was the third largest debtor in Latin America (after Mexico and Brazil) and teetered on the brink of default at several points between 1982 and 1992, posing grave risks to the balance sheets of

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<sup>2</sup> In 1929, Argentina's output per capita was 38% of the United States' output per capita; by 1950, the ratio dropped to 23%, and in 1983 the figure was 15%. Argentina dropped from the 18th largest economy in the world in 1929 (measured in terms of per capita output) to number 25 in 1983. Data are taken from Llach 1987: 27; also reported in Smith 1989: 17.

highly exposed U.S. banks.<sup>3</sup> In the late 1990s a crisis of investor confidence coupled with Argentina's deep integration into the international financial system posed a systemic risk through contagion to other emerging markets.<sup>4</sup> With so much at stake in Argentina, we would expect to see that the Fund put its best economists on the task of managing the country's reform and stabilization efforts. Political concerns fall by wayside when the threats to global financial stability are great.

*Bureaucratic Interests.* If bureaucratic forces shaped the IMF's decision making in Argentina, I should observe that the IMF's treatment of the country in each period reflected the self-interest of the institution and its staff members. Factors such as competition from the World Bank or the level of the Fund's financial exposure in Argentina should have some influence on the staff and management's decision making. I will also see evidence that the staff members in the Western Hemisphere Department used loans to expand their influence and budgets. Since these incentives do not change over time, there is consistency in the Fund's treatment of Argentina between the four periods. We might also observe evidence that the staff and management associated with the Western Hemisphere Department took a more lenient position on lending to Argentina compared to officials within the Fund that did not deal regularly with the country.

*External Influences on the Fund.* The prediction from the external influences explanation is straightforward: the IMF's treatment of various Argentine governments over the 25-year observation window reflected the preferences of either powerful member states or influential private banks.

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<sup>3</sup> In addition to the threat of default for highly exposed financial institutions, bankers feared that an Argentine debt moratorium would have powerful demonstration effects, perhaps triggering a wave of debt repudiation throughout Latin America. For a detailed discussion of Argentina's debt situation in the 1980s and early 1990s, see Aggarwal 1996: 409-56.

<sup>4</sup> Argentina floated a large amount of sovereign debt during the period, making it the largest borrower among low- and middle-income countries on international financial markets by the year 2000. On the threat of contagion from Argentine troubles, see Mussa 2002: 25-27, 38; Blustein 2005: 175.

The case offers a good test for the realist explanation, because there is variation in the IMF's geopolitical position during the period examined in the chapter: a pariah state during the repressive years of the *Proceso* in the late 1970s, the election of Ronald Reagan in 1980 brought Argentina back into the fold as a valued ally in the Southern Hemisphere.<sup>5</sup> In 1982 it fought and lost a war against one of the Fund's most powerful and influential member states; the enmity between the UK and Argentina persisted for years, and spilled over into the IMF's dealings with later Argentine governments, as will be detailed in the pages that follow. Compared to a country like Russia, the strategic interests over Argentina are not so intense that the country is a special case. But Argentina is not a peripheral country where geopolitical concerns play little role. Similarly, the high exposure of large banks and private lenders in Argentina gives reason to expect to find evidence that the Fund's staff and management were influenced by these external agents at different points in the relationship.

*Domestic Politics.* This explanation focuses on the domestic institutions and processes that influence economic policymaking in predictable ways. If this approach offers insights, we should see evidence that the Fund's treatment of Argentina was influenced by a few select domestic-level factors: regime type, partisanship, and the electoral clock have each been cited as important determinants of variation in IMF treatment.

The Argentine case provides a particularly clean test of the explanation. In December 1983 the country experienced a transition to democracy under the newly elected President Raul Alfonsin. Some claim that the IMF prefers to deal with autocratic regimes, because autocratic leaders are better able to suppress anti-reform interest groups and can more readily commit to and carry out tough stabilization

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<sup>5</sup> Kirshner 2007: 183.

programs of the kind the IMF advocates.<sup>6</sup> On the other hand, a large (and growing) body of literature in international relations argues that democratic institutions enable governments to credibly commit to policies.<sup>7</sup> Either way, I should observe a qualitative change in the IMF's treatment of Argentina after the 1983 transition.

### *Overview of the Chapter*

This chapter demonstrates that the pattern of relations between the IMF and Argentina matches my theoretical expectations. When the proportion of neoliberals in government was high, the IMF's treatment of the country was generous; when neoliberals were jettisoned in favor of officials that did not share the Fund's basic worldview, the IMF's treatment became much tougher. My confidence in the ideational argument is strengthened by the fact that the Fund's treatment moves in directions not predicted by the alternative theoretical approaches. In the two periods in which neoliberals were ascendant, the Fund's leniency flew in the face of mounting evidence that the country was pursuing unsustainable fiscal policies. I find comparatively little evidence that powerful states or private banks exerted pressure on the Fund to extend generous loans to the Argentines or to tighten conditions. Moreover, I find evidence in a variety of archival materials that the character of the policy team plays an important role in shaping the perception of the country's credibility, from the staff level all the way to the Executive Directors.

That said, my explanation does not explain 100 percent of the variation in the Fund's treatment of Argentina in the four periods. I do not expect that it should. Rather, the importance of the episodes for the general framework in the dissertation is

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<sup>6</sup> Doug Badow contends that "the IMF has rarely met a dictatorship that it didn't like" (1994: 26). See also Vreeland 2003: 88.

<sup>7</sup> There are multiple mechanisms proposed in the IR literature that link democratic institutions to outcomes; the provision of information, the presence of veto players, and the turnover of executives are all suggested as reasons for differences between democracies and dictatorships. A review of this literature is far beyond the scope of this dissertation; Nathan Jensen provides a succinct overview in *Nation-States and the Multinational Corporation*, pp. 77-82.

that they demonstrate, in combination with the statistical results, that shared ideas are an important cause of variation in the IMF's treatment of its borrowers. As shown in chapter 4, the pattern of systematic discrimination in favor of certain types of borrowers has important political consequences.

The analysis begins with two periods in which neoliberals retained control over economic policymaking. The two "high neoliberal influence" cases are characterized by easy negotiations, relatively light conditionality that is weakly enforced, generous loans, and a general sense of enthusiasm on the part of the Fund for the officials running the Argentine economy. The third section considers the IMF's treatment of Argentina during a period in which the influence of neoliberals was low (1981-84). The events in the period conform to the theoretical expectations: the IMF's took a tough line with the Argentine government at a time when the country's economic position was particularly precarious. In the fourth section I discuss the relationship during an interesting period in the mid- to late-1980s in which policymaking in Argentina was divided between neoliberals and non-neoliberals. In each episode I assess how well the contours of the Fund's relationship with the various governments are explained by the degree of neoliberal influence compared to the other approaches.

### **Episode 1: Neoliberals to the Rescue, 1976-81**

The trajectory of the Fund's relationship with the military government in the years between 1976 and 1981 follows the pattern predicted by the theoretical framework: the presence of neoliberal economists in top policymaking positions reassured the IMF's staff and management that the country was serious about reform. In turn, the government was rewarded with lenient treatment. In retrospect, there is little indication – aside from the presence of likeminded authorities in the central bank and economy ministry – that the military government had the either ability or desire to pursue disciplined macroeconomic policies of the type preferred by the Fund.

Unfortunately, this episode, like the second episode of high neoliberal influence (1991-2001) described in the following section of the chapter, ended in financial collapse.

This section of the chapter is organized around the two lending arrangements that the Fund negotiated with the military regime during the period. I also devote some attention to the historical position of neoliberal economic ideas in Argentina. Not only was the 1976-81 era the first time that neoliberals exerted significant influence of economic policymaking, but the openness of the military regime to the propagators of neoliberal economic ideas set the path for a second generation of American-trained economists to gain a foothold on policy and reshape the country's relationship with the Fund, a decade after this period came to its conclusion.

#### *The Proceso Takes Power*

When IMF officials arrived in Buenos Aires two months after the March 24, 1976 coup that swept Isabel Peron from the presidency, they were immediately confronted with the fact that Argentina was a country mired in deep political and economic crisis. Members of the IMF mission team received word that they were possible targets for assassination by the leftist guerrilla organization the People's Revolutionary Army (*Ejercito Revolucionario del Pueblo*, or ERP), and were forced to conduct the negotiations with the new military government in secret.<sup>8</sup> The briefing for the members of the IMF mission that would arrive in Buenos Aires on May 26 cautioned that "few Fund members have experienced financial deterioration to the extent now present in Argentina and neither the Argentine authorities nor the Fund staff have had much experience in dealing with such situations."<sup>9</sup>

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<sup>8</sup> Interview with Christian Brachet, Washington DC, May 31 2009. Brachet was an economist in the River Plate division in 1976; later, he became Deputy Division Chief of the Western Hemisphere Department, a position he held between 1981 and 1984.

<sup>9</sup> "Briefing for Mission to Argentina," prepared by the Western Hemisphere Department, May 20, 1976.



The IMF welcomed the new military government led by General Jorge Rafael Videla. In light of the terrible human toll that the regime would exact over the next four years – estimates of the number of murdered “subversives” range as high as 25,000 – the IMF’s favorable attitude seems objectionable.<sup>10</sup> Yet support for the coup was widespread at the time. Many (if not most) Argentines regarded the coup as an inevitable response to excesses of the Peronist years.<sup>11</sup> An editorial in the *Buenos Aires Herald* noted that the military “only had to organize the funeral” for a period of nationalist populism in Argentine political life that had passed.<sup>12</sup>

The Videla regime envisioned a reconstruction of Argentine society to purge the corruption, subversion, and moral degradation that they saw as endemic to the Peronist movement. Reflecting on the ideological objectives of the *Proceso de Reorganización Nacional* (Process of National Reorganization or, more commonly, the *Proceso*), William Smith writes that “according to their ideologues, the armed forces were locked in a true crusade as the lonely and misunderstood guardians of one of the most vulnerable outposts of ‘Western Civilization.’”<sup>13</sup>

#### *The Emergence of the Neoliberals*

In a briefing from May 20, 1976, the leaders of the IMF mission to Argentina noted, with approval, that “the new economic team, headed by Minister of Economy Martinez de Hoz and Central Bank Governor Diz, has *espoused an economic*

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<sup>10</sup> While few could have predicted the extent of the Videla’s crimes, public statements by the members of the junta indicated the regime’s violent intentions. In a speech in Montevideo in 1975, Videla stated that “as many people will die in Argentina as necessary to restore order.” The IMF’s management had some awareness of the repression that began immediately after the coup; I found a clipping from a May 20, 1976 *New York Times* article entitled “Repression in Argentina” among the policy memos and briefings in the Fund’s archives. Videla’s statement in Montevideo is quoted in Pion-Berlin 1987: 97.

<sup>11</sup> From October 1973 until the March 1976 coup, the Peronist party controlled Argentine politics, led first by Juan Peron himself (invited back from exile in Spain), and after his death in 1974 by his second wife, Isabel. Under the Peronists the exchange rate, trade policy, and government subsidies were all directed toward supporting the urban industrial sector. The Peronists’ policies accelerated the economic and social breakdown that had been ongoing in Argentina since the late 1960s.

<sup>12</sup> *Buenos Aires Herald*, March 24, 1976. Also quoted in Veigel 2005: 94.

<sup>13</sup> Smith 1989: 231.

*philosophy radically different from that of the previous government.*”<sup>14</sup> The policymakers assembled by the Armed Forces were adherents to the collection of economic ideas and policies that I described in chapter 2 as “neoliberal.”

Adolfo Diz, the new central bank governor, completed a PhD in economics from the University of Chicago in 1966 with a dissertation entitled “Money and Prices in Argentina, 1935-62.” Diz had taught in one of the few relatively neoliberal-friendly economics departments in Argentina at Universidad de Tucúman (and was teaching at Centro de Estudios Monetarios Latinoamericanos (CEMLA) in Mexico City at the time of the coup), and had worked as an Executive Director with IMF from 1966-68.<sup>15</sup> Diz retained Ricardo Arriazu, a Minnesota-trained economist and holdover from the final months of the Peronist period, as his deputy. The planning ministry went to Guillermo Walter Klein, Jr., who held a master’s degree from Harvard.<sup>16</sup>

The key appointee, “superminister” José Martínez de Hoz, did not possess neoliberal credentials; nonetheless, he was someone with strong international ties and a preference for economic policies that were closely aligned with the IMF’s views on stabilization.<sup>17</sup> Tall, impeccably dressed, and aristocratic in manner (he was on safari in Kenya when the coup occurred), Martínez de Hoz hailed from a wealthy land-owning family and had served as economy minister for six months in 1963. Trained in law at Universidad de Buenos Aires in 1949, Martínez de Hoz “was deeply influenced by anti-Keynesian, libertarian thinking,” particularly through the work of the Austrian

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<sup>14</sup> “Briefing for Mission to Argentina,” prepared by the Western Hemisphere Department, May 20, 1976. Italics added for emphasis.

<sup>15</sup> See Veigel 2005: 96.

<sup>16</sup> *El Cronista Comercial*, April 9, 1976. His father, Guillermo Walter Klein, Sr. was an Executive Director with the Fund from 1960 to 1964.

<sup>17</sup> Martínez de Hoz denied that he followed any particular “academic” theory; *The New York Times* reported that “he describes himself as a ‘pragmatist,’ rather than an economic liberal in the sense of 19<sup>th</sup> century capitalism” (Juan de Onis, “Argentina’s Planner,” *New York Times*, April 1, 1976, pg. 2). See also Manzetti 1991: 94.

economist Friedrich von Hayek.<sup>18</sup> His closest links were with the Argentine and international business communities (he counted David Rockefeller as a friend), forged through his role as the chairman of Acindar, Argentina's largest steel company. When Walter Robichek, the director of the Fund's Western Hemisphere Department, related the news of the coup to the Executive Board, he reported that "he had learned that the Government was trying to co-opt Mr. José Martínez de Hoz, a civilian who had already been Minister of Finance, and *who was well-known not only to the Fund but throughout the Western world.*"<sup>19</sup>

The economic policy team under Videla marked a breakthrough for neoliberal economic ideas in Argentina. Proponents of neoliberalism had competed with votaries of the other major Latin American intellectual paradigm, structuralism, in the battle to shape economic policymaking throughout the postwar period. The ideational competition was personified by the rivalry between Alvaro Alsogaray, an economic minister in several governments, and Argentina's most influential economist, Raúl Prebisch. Throughout Alsogaray's nearly 40 year career in politics, he "was driven by the goal of controlling economic policy and charting Argentina on a course toward a free-market economy."<sup>20</sup> Like Martínez de Hoz, Alsogaray's views were shaped by exposure to the ideas of Friedrich Hayek: "I had seen that Peronism here was leading us exactly down the road that Hayek had warned against, and I became convinced of the need to put a free-market system in place in Argentina."<sup>21</sup> Alsogaray was a staunch defender of the IMF's role in Argentina and Latin America more generally; in an editorial published in *The Washington Post*, Alsogaray wrote: "if I had any

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<sup>18</sup> Quote from Veigel 2005: 98. It has been mistakenly reported that Martínez de Hoz was a Harvard graduate; for example, *The Economist* referred to him as "a graduate of the Harvard Business School" ("Argentina, Brains – and Brawn," July 10, 1976, pg. 84).

<sup>19</sup> Minutes of the meeting of the Executive Board, EBM/76/52, March 26, 1976; italics added for emphasis.

<sup>20</sup> Gibson 1996: 109. Alsogaray discusses his economic beliefs in de Pablo 1977: 33-42.

<sup>21</sup> Alsogaray quoted in Gibson 1996: 110.

observation to make regarding the attitude of the Fund, it would not be its strictness but the extreme tolerance it is at times compelled to exercise due to the political pressure irresponsibly exerted by those same demagogues [populists and leftists].”<sup>22</sup>

Against neoliberalism stood the ideas of Raul Prebisch, who served as the executive secretary of the United Nations Economic Commission for Latin America (ECLA). Prebisch and his acolytes were pessimistic about the consequences of market liberalization for developing countries. In their view, the deck is stacked against peripheral economies: the primary commodities that countries (such as Argentina) export are subject to deteriorating terms of trade, low elasticity of demand in external markets, and price volatility, while new industrial enterprises are suffocated due to their low capacity to generate internally the investment necessary to expand and the excessively high cost of borrowing on private markets.<sup>23</sup> Structuralists like Prebisch advocated a development strategy of import-substitution industrialization (ISI). In the ISI model, the policies at the government’s disposal – the exchange rate, selective tariffs, credit creation and subsidies – are used to protect the domestic manufacturing sector by driving out consumer goods that were previously imported from abroad in exchange for goods produced by domestic firms.<sup>24</sup>

From the mid-1950s through the 1976 coup the two dominant forces in Argentine politics – the armed forces and the Peronists – rejected neoliberal economic ideas in favor of interventionist and nationalist policies. Whereas the “Chicago Boys” were able to gain control of Chilean economic policymaking by the early 1970s, Argentina was relatively inhospitable for American-trained economists.<sup>25</sup> Klaus

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<sup>22</sup> Alvaro Alsogaray, “The IMF and Argentina,” *The Washington Post*, March 20, 1968. Newspaper clipping found in the IMF archives.

<sup>23</sup> An early and clear statement of the structuralist view is in Prebisch 1950; see also Canitrot 1980: 922; Manzetti 1991: 27-28.

<sup>24</sup> For example, Frieden 1991: 46-51.

<sup>25</sup> Biglaiser 2002: 277.

Veigel notes that “lacking attractive opportunities in Argentina, many Chicago graduates, such as Pedro Pou, Roque Fernandez, Mario Blejer, Claudio Loser, and Carlos Rodriguez, remained in the United States working for international organizations or as university professors.”<sup>26</sup> There was no shortage of US-trained Argentines: by the late 1950s top American economics departments such as Harvard, Chicago, MIT, Yale, and Columbia were admitting Argentines to their graduate programs.<sup>27</sup>

The Videla administration provided an opportunity for neoliberals to carve out a permanent space in Argentine society from which to influence policymaking in the future. The creation of two separate research institutions following the coup would prove to be particularly important. In June 1977 a group of Argentine industrialists founded *Fundación Mediterranea* (FM), an economic research institute that provided a sanctuary for a number of American-trained economists.<sup>28</sup> The next year a newly-minted Harvard economics PhD named Domingo Cavallo was invited to run a new project (*El Instituto de Estudios Economicos sobre la Realidad Argentina y Latinoamericano*, IREEAL) under the auspices of the FM. It was through the FM/IREEAL that Cavallo and a handful of neoliberal economists developed a diagnosis of Argentina’s illness: “capitalism without the market and socialism without a plan.”<sup>29</sup> 1978 also marked the founding of *Centro de Estudios Macroeconomicos de Argentina* (CEMA), which became the home for a second set of neoliberal

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<sup>26</sup> Veigel 2005: 96. Rodriguez taught economics at Columbia; Blejer and Loser had distinguished careers with the IMF; Pou, Fernandez, and Rodriguez will figure into the story in the next part of the chapter as important neoliberal policymakers under President Carlos Menem.

<sup>27</sup> Dagnino Pastore and Fernandez Lopez 1988.

<sup>28</sup> Heredia 2004: 313-77; Ramirez 2000; Corrales 1997: 56. By the late 1980s *Fundación Mediterranea* had expanded to include offices in every major Argentine city

<sup>29</sup> Cavallo 1984: 26. FM was home to a number of US-trained economists in the late 1970s, including Humberto Petrei and Aldo Dadone (Chicago), Aldo Arnaudo (Yale), and Carlos Givogri (Vanderbilt). Cavallo would bring many of his FM associates into government when he became finance minister in January 1991. Heredia 2004: 328; Ramirez 2000: 69.

economists.<sup>30</sup>

*The Martinez de Hoz Plan and Relations with the IMF*

The new economic policy team wasted little time in reversing the policies of the Peronist era. Martinez de Hoz outlined the new government's economic agenda in a televised speech to the nation on April 2, 1976. Immediately, the military government would pursue a radical program aimed at liberalizing the economic system to control inflation which had wreaked havoc at the end of the Peronist interregnum: the agricultural marketing board was abolished; restrictions on foreign investment were relaxed; real wages were slashed and new taxes implemented; the currency was devalued and exchange restrictions eliminated. The program was consistent with an effort to minimize government intervention and restore the discipline of the market to Argentina.<sup>31</sup>

Contact with the IMF after the March 24 coup was initiated by the central bank governor, Adolfo Diz. On April 5 he placed a phone call to Jorge del Canto of the Fund's Western Hemisphere Department to discuss the possibility of a standby arrangement. The Fund was amenable to sending a mission as soon as possible, but Diz wanted to wait until the beginning of June to allow time to implement the first round of reforms.<sup>32</sup> It was clear from the outset that the relationship between the IMF and Videla's government would be better than what prevailed in the final months of the Peronist period. The IMF perceived the Diz-Martinez de Hoz team to be both well-intentioned in the sense of having correctly diagnosed the problem and formulating the

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<sup>30</sup> Economists associated with CEMA include Pedro Pou, Roque Fernandez, and Carlos Rodriguez (all Chicago PhDs). Heredia 2004: 328; Veigel 2005: 96.

<sup>31</sup> In his speech of April 2<sup>nd</sup>, Martinez de Hoz argued that "the state should not operate in spheres of action best left to the market...in a modern world economy, of highly fluid inter-relations, it is not possible to keep a country's economy isolated from the rest of the international community" [translated from the Spanish]. See also Veigel 2005: 98-99. Martinez de Hoz's speech is summarized in an IMF memorandum from Martin Hardy to Jorge del Canto, "Argentina: New Economic Measures," April 5, 1976; also see Canitrot 1980: 917.

<sup>32</sup> Memorandum from Jorge del Canto to the Managing Director, "Argentina," April 12, 1976.

right package of reforms and *credible* in the sense of showing the “willing[ness] to see it [the reform program] through.”<sup>33</sup> The neoliberal economic beliefs of the key Argentine policymakers helped reassure the IMF that this government was serious about reform. Vito Tanzi, a senior economist in the Fiscal Affairs Department and participant in the 1976 missions, remarked that the ideas held by the Argentine officials were “much closer to those of the Fund: trust in the market, not too many controls, balance of payments... We spoke the same language.”<sup>34</sup>

The IMF and international financial actors were optimistic about the Diz-Martinez de Hoz team’s chances of carrying out a wide-ranging reconstruction of the economy in a neoliberal direction, but in reality, the Argentine officials’ room to maneuver was far more constrained than the IMF recognized at the time. From the outset it was made clear to Martinez de Hoz that any package of reforms must not increase unemployment; the military regime was engaged in a pitched battle against perceived enemies from the labor movement and the universities, and the armed forces were concerned that job losses would generate sympathy for the resistance, if not add to the ranks of the insurgency.<sup>35</sup>

The policy team’s efforts at reining in spending were severely circumscribed by the state of perpetual war initiated by the armed forces, which was initially directed inward against “subversives” but later turned outward against Argentina’s Western neighbor, Chile, and its former colonizer, Britain. Cuts in military spending were off the table; privatization was limited to state-owned enterprises that were not deemed

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<sup>33</sup> Memorandum from Argentina-IMF mission head Jack Guenther to the Managing Director, “Mission Review,” June 15, 1976.

<sup>34</sup> Quoted in Veigel 2005: 105. Tanzi’s comments dovetail with Luigi Manzetti’s analysis of the 1976 economic team; Manzetti writes that their “sharing of the economic approach dominant in the international financial community at the time enhanced the country’s international credibility and its ability to obtain new loans to solve the balance-of-payments problems” (1991: 95).

<sup>35</sup> Erro 1994: 101-02; Epstein 1987: 996. One of Martinez de Hoz’s opponents in the military regime, Admiral Emilio Massera, proclaimed: “For every *guerrillero* that I kill, the Minister of Economics is creating five new ones.” Quoted in Veigel 2005: 129.

essential to national security – but nearly every important state enterprise was considered vital, no matter how costly or wasteful the enterprise.<sup>36</sup> The military itself was divided. Videla was sympathetic to his economic team’s viewpoint, but economic nationalist and interventionist beliefs were deeply rooted in the armed forces, particularly among the top leaders of the air force.<sup>37</sup>

It is important to note that the IMF’s staff members did report some concerns to the Managing Director about the military’s commitment to a difficult set of reforms. The head of the mission to Argentina, Jack Guenther, referring to the recession that would result from an IMF-supported austerity program, commented that “the economic team knows this, regards it as inevitable, and seems to be willing to see it through. The military also say that they understand, but I am not sure that they comprehend fully the short-run difficulties which are ahead to lay the basis for renewed economic growth.”<sup>38</sup>

Serious discussion about a standby arrangement with the Fund began in mid-June, per the central bank governor’s preferences. Negotiations proceeded smoothly, and two top officials from the Western Hemisphere Department, Jack Guenther and Marcelo Caiola, left Washington for Buenos Aires on June 29 to iron out the final details of a \$300 million (SDR 260 million) purchase under the standby arrangement. Discussions between the Fund and the Argentines proceeded alongside Martinez de Hoz’s efforts to gain additional support from Western banks, efforts that proved fruitful: IMF officials reported that the Argentines had secured up to \$500 million from US banks during the meetings between Martinez de Hoz and a consortium of

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<sup>36</sup> Erro 1994: 102.

<sup>37</sup> Erro 1994: 103; Veigel 2005: 125.

<sup>38</sup> Memorandum from Argentina-IMF mission head Jack Guenther to the Managing Director, “Mission Review,” June 15, 1976.



bankers in New York.<sup>39</sup> The financing from private sources, coupled with the fact Argentina did not have an excessively large financing gap in 1976, makes the generosity of the IMF's terms all the more surprising. According to Luigi Manzetti, "the IMF was so appreciative of the 'new course' taken by Martinez de Hoz that it granted Argentina more funds than were given to any other Latin American country at the time."<sup>40</sup>

The standby agreement – Argentina's first high-conditionality IMF loan since 1968 – was unanimously approved by the Executive Board on August 6. The SBA involved five binding conditions, none of which were particularly controversial or onerous.<sup>41</sup> The agreement included limits on the cash deficit of the Treasury to keep the fiscal deficit below 5 percent of GDP. The minutes of the Executive Board meeting demonstrate unified support for the new economic team and an optimistic view of the prospects for success. Only one Executive Director expressed concern that "the intermingling of economic, political, and social problems in Argentina" should give IMF staff members pause before "making judgments on the speed with which measures could be taken to correct the economic position, although it was not difficult to make a broad judgment of the steps needed."<sup>42</sup>

#### *Performance under the 1976 Standby Agreement*

Two problems attracted the Fund's attention as staff members prepared an evaluation of the government's policies for the next disbursement of funds. Monthly consumer price inflation dropped in the first four months after the coup, but climbed

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<sup>39</sup> Memorandum from Jorge del Canto to the Managing Director, "Argentina – Status of Negotiations," June 29, 1976.

<sup>40</sup> Manzetti 1991: 112.

<sup>41</sup> The agreement included the following performance criteria (binding conditions): (1) limits on the cumulative cash deficit of the Treasury; (2) limits on the net domestic assets of the central bank; (3) reductions in the total amount of exchange rate guarantees; (4) limits on the decline of net foreign assets of the central bank; (5) a commitment to eliminate any remaining price controls and to "continue to allow prices to be freely determined by market forces." See Text of the Standby Arrangement, EBS/76/340, supplement 1 ("Argentina – Standby Arrangement"), August 9, 1976.

<sup>42</sup> Minutes of the Executive Board Meeting, EBM/76/124, August 6, 1976.

back to 10 percent in September 1976 and hit 15 percent in December. Unable to cut wages or employment any further, Diz and Martinez de Hoz resorted to unorthodox measures to get a handle on the rise in consumer prices. In March 1977 the government imposed a six month price freeze on the 800 largest Argentine firms; the “price truce” was to be enforced officially through administrative monitoring (an ineffective approach in a government rife with corruption) and unofficially through voluntary self-restraint on the part of industrialists.<sup>43</sup> The authorities also lowered tariffs in an effort to impose price discipline on previously protected firms.<sup>44</sup>

More concerning from the Fund’s perspective was the failure of the government to meet the fiscal target in the August standby arrangement. The IMF set a modest target of 575 billion pesos (52% of total expenditures) for the cumulative deficit of the Treasury; in December, the Argentines reported a deficit of 590 billion pesos (60% of total expenditures), making the country out of compliance when the staff members considered the government’s request for the final disbursement from the SBA. The IMF’s economists were concerned about the fiscal situation; a November briefing from upper-level management for the mission to evaluate the status of the program emphasized that “the fiscal situation remains the critical aspect of the Argentine stabilization plan.”<sup>45</sup> The final disbursement was delayed at the end of 1976 as the IMF and Argentine officials negotiated new targets on net domestic credit of the Central Bank and the fiscal deficit for the first quarter of 1977. Despite the missed fiscal target in the last quarter of the previous year and concern that “the progress on the control of inflation has been disappointing,” the staff members recommended approval of the final tranche of the SBA.<sup>46</sup> One could draw the

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<sup>43</sup> Erro 1994: 107; Smith 1989: 237.

<sup>44</sup> Fernandez 1985: 874.

<sup>45</sup> Western Hemisphere Department, “Briefing for Mission to Argentina,” November 22, 1976.

<sup>46</sup> Staff report, “Argentina – Consultation under Standby Arrangement,” EBS/77/109, April 15, 1977.

conclusion from these events that the Fund's staff was willing to overlook problems with the Diz-Martinez de Hoz program for fear of failing to support a group of neoliberals working against great odds to pursue policies broadly in line with the IMF's agenda.

### *The Second Standby Arrangement*

The Economy Minister unveiled a major policy initiative in June 1977 just before IMF officials arrived in Buenos Aires for negotiations on a second standby arrangement. Martinez de Hoz announced a far-reaching liberalization of the financial system. Private financial institutions were once again allowed to dispense credit at interest rates of their choosing, and for the first time since the Peronist period, real interest rates became positive. The financial sector's close links with the government meant that they were able to slip a clause into the financial reform that would have important repercussions at a later date: the government promised to fully back all banking deposits in the nation's financial institutions.<sup>47</sup> As a result, when financial crisis eventually came to Argentina in 1980, the liabilities of finance institutions assumed by the government amounted to more than 3 percent of GDP.<sup>48</sup> But the June reform served its desired purpose: foreign capital returned to Argentina in droves.

Negotiations over a second SBA to support the economic team's program took place in June and July of 1977. The IMF's negotiators, led by Marcello Caoila, remained optimistic about the prospects of the Argentine officials' management of the stabilization effort. While fiscal policy was still identified as the wobbly plank of the stabilization, the IMF's staff allowed Diz and Martinez de Hoz to offer vague promises of improvement without imposing tough conditions. The staff's leniency was noted by an Executive Director, W.A. Beveridge, who complained in a memo to Fund

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<sup>47</sup> Epstein 1987: 996; Erro 1994: 109.

<sup>48</sup> Fernandez 1985: 889.

management that the proposed SBA contained “no reflection of efforts to intensify fiscal policies in the letter of intent,” despite the suggestion in Caoila’s briefing paper that “in order to strengthen the fiscal situation, the authorities should implement a substantial tax package.”<sup>49</sup>

On September 2, 1977 the Argentines submitted the letter of intent, drafted with the IMF’s staff members from the Western Hemisphere department, which outlined policies for a new standby arrangement. The proposal was brought before the Executive Board on September 16. Several Executive Directors immediately seized upon a highly unusual aspect of the proposed loan: “the proposed standby arrangement contained the broad lines of a program for 1978 rather than any quantified targets.”<sup>50</sup> The performance criteria included in the SBA were only set for the quarter following the date of approval; one experienced Executive Director remarked that he was not familiar with another program in which the Board was asked to approve a 12 month program with binding conditions specified for half the length of the program. The staff and management defended the odd structure of the proposed program, arguing that delays in the preparation of the government’s budget prevented the staff from formulating targets for the entire duration of the loan, and, in any case, the Argentines had indicated that they would not draw on the program. The last point is important: the current account balance was in surplus, and the June reform of the financial system spurred massive capital inflows. Argentina’s need for balance of payments support had eroded in the time between the mission to Buenos Aires and the Executive Board meeting.

With the caveat that the 1977 SBA should not be seen as setting a precedent for future Fund lending behavior, the Board approved the SDR 159.5 million loan. In

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<sup>49</sup> Note from W.A. Beveridge to Sanson and Walter Robichek, “Argentina,” July 7, 1977.

<sup>50</sup> Minutes of the Meeting of the Executive Board, EBM/77/138, September 16, 1977.

spite of concerns about the structure of the agreement and lingering questions about the weakness of the program vis-à-vis inflation and fiscal policy, the record of the Board meeting indicates that, for many of the Executive Directors, approval of the program was intended as a signal of the Fund's continued support for the Diz-Martinez de Hoz policy team.

### *The End of the First Era of Neoliberal Influence in Argentina*

Argentina's economic situation deteriorated in 1978. In March the authorities notified the IMF that, in light of the strong balance of payments performance, they would not need to draw on the SBA and would not seek to negotiate a new agreement after the current agreement expired.<sup>51</sup> In any case, the IMF's patience with the Diz-Martinez de Hoz team had run out: inflation reached 170 percent in 1978 (the program envisioned an increase in prices of no more than 80 percent), the fiscal deficit significantly exceeded the program's targets, and the expansion of domestic monetary assets began to accelerate by the end of the year. The only good news on the economic front was the balance of payments, but this was mainly a consequence of inflows of "hot money" from abroad in the wake of the reform of the financial system.<sup>52</sup>

The end of the first period of neoliberal control over Argentine economic policymaking came relatively quickly. To arrest the spiraling inflation – driven, in part, by the military government's adventurism in the south Atlantic and unwillingness to tolerate unemployment – the Economy Minister and his team formulated a new approach that, like the price truce of March 1977 and the punitive tariff reductions, relied on the management of price expectations. The *tablita* was introduced in December 1978; it consisted on a pre-announced schedule of devaluations (literally a small monthly table published by the government – hence the name *tablita*) that would

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<sup>51</sup> Memorandum from Marcello Caoila to the Acting Managing Director, "Mission to Argentina," March 15, 1978.

<sup>52</sup> Western Hemisphere Department, "Briefing for Mission to Argentina," March 7, 1979.

push the value of the peso below the level of monthly price increases, thereby reducing inflationary expectations and (theoretically) bringing prices back down.<sup>53</sup>

The *tablita* had some perverse consequences for economic activity in Argentina. The forward-looking crawling peg led to an appreciation of the real exchange rate; as the peso became overvalued, consumers switched to cheaper imports (which grew by 73 percent in 1979) and Argentine producers were forced to borrow heavily to stay afloat.

The consequences of the new policy orientation are visible in Figure 5.1 which tracks a range of economic indicators over time.<sup>54</sup>

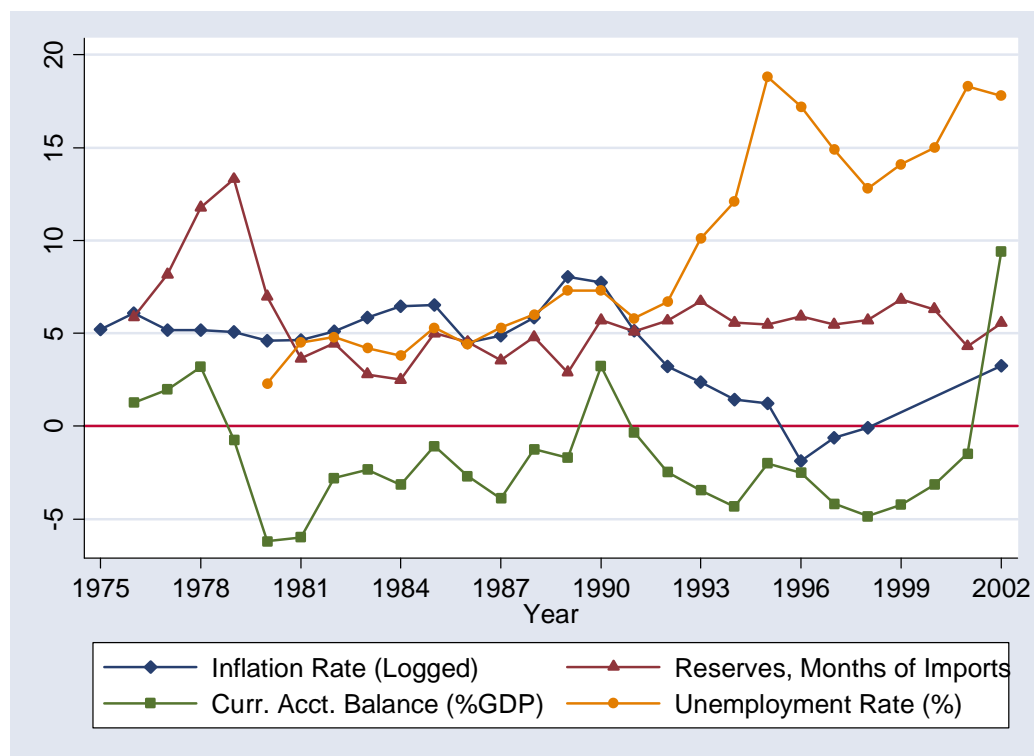


Figure 5.1 Economic Conditions in Argentina, 1975-2002

An abrupt reversal in the current account and the reserves position occurs at

<sup>53</sup> Argentina's approach to expectations management using the *tablita* was not unique: Chile and Uruguay also used the schedule of pre-announced devaluations to control inflation in the late 1970s. On the operation of Argentina's *tablita*, see Fernandez 1985; Schamis 2003: 134; Sjaastad 1989: 254-75.

<sup>54</sup> All economic data in figure 5.1 are taken from the World Bank's *World Development Indicators* database.

the end of the 1970s. The current account was driven sharply negative by the real overvaluation of the peso. With the expectation of an unannounced devaluation in the near future, investors began fleeing from the peso on a massive scale.<sup>55</sup>

In 1980, a large number of firms that had borrowed heavily when the peso became overvalued failed; to shore up their balance sheets, Argentine banks raised their interest rates to attract assets to offset their losses from delinquent loans. In March the first major Argentine bank failed; following the collapse of Banco de Intercambio Regional, the government was forced to take on the balance sheets of Banco de los Andes, Banco Odoné, and Banco Internacional.<sup>56</sup>

By April 1981 time had run out for the neoliberals. Remarkably, after five years in office Diz and Martinez de Hoz had survived longer than any other central bank governor or finance minister in Argentina's postwar history. Martinez de Hoz left office confident that, in spite of the economic trauma that Argentines had endured in the last two years of his time as Economy Minister, the incoming military government would remain committed to broadly neoliberal policies. "The important thing is that Argentina has accepted the principle that retaining something moderately good is better than trying to get something perfect," he remarked.<sup>57</sup>

*Summary of the First Period of High Neoliberal Influence, 1976-81*

I characterized the IMF's treatment of Argentina during this period as lenient. The loan negotiated in 1976 was, by regional and historical standards, generous. The Fund was willing to overlook the missed fiscal targets to enable the government to complete the program. The second arrangement, approved the next year, was unusually lenient in terms of conditionality: rather than spelling out binding targets for

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<sup>55</sup> Schamis 2003: 135.

<sup>56</sup> Epstein 1987: 998-99.

<sup>57</sup> Lewis Diuguid, "Argentine Finance Minister Ends Job with Confidence," *The Washington Post*, October 2, 1980, pg. B3.

entire duration of the proposed loan, the conditions included in the 1977 SBA were only set for the quarter following the date of approval.

The Fund's behavior in the first episode revealed a pattern that emerged again in later periods: the staff and management of the Fund pursued a course intended to provide economic and political support to a group of trusted likeminded authorities. The institution failed to pick up on other signals that might have suggested a more pessimistic view of the situation; in particular, the military government's internal divisiveness and unwillingness to bear the costs of austerity should have indicated that the ability of the Fund-supported policy team to implement a sweeping reform and stabilization effort was limited.

I found little evidence for the alternative explanations in the details of the episode. The IMF's lenient treatment of a regime engaged in widespread human rights abuses suggests limits to the external influences argument, as well as some uncomfortable facts about the institution's selective view of politics in its borrowing countries. Under the Carter administration, Argentina was no friend of the United States, but the Videla regime did not suffer any consequences in terms of its treatment by the Fund.

## **Episode 2: Neoliberal Consolidation, 1991-2001**

The second period in which neoliberals had strong influence on policymaking is the lengthiest episode in the chapter. For a decade, American-trained officials controlled the economy ministry and central bank. Unlike the previous period discussed in the chapter, the turn to neoliberal economic management in 1991 took place in a democratic regime. But the two episodes bear some similarities. In both cases the new policy teams were brought in to resolve economic crises. In 1976, the Diz-Martinez de Hoz team took control of an economy that had been severely mismanaged by the previous government. The economists recruited in 1991



confronted an economy that had suffered two hyperinflation episodes. The first, in 1989, forced the country's President, Raul Alfonsin, to leave office early. His replacement, Carlos Menem, also faced severe inflationary pressures after taking power.

In both periods, the neoliberal policy teams were able to engineer a few years of strong economic growth. One key difference is the extent of Fund involvement during the crises that followed the recovery. Whereas the military government was not under an active program when crisis conditions emerged in the late 1970s, the Fund was deeply involved in Argentina when the decline accelerated after 1998.

My theory predicts that the IMF's treatment should be especially lenient during the period. Indeed, I find a consistently generous pattern of treatment, the most remarkable aspects of which are the lack of structural conditionality in the series of loans negotiated after 1991 and the Fund's willingness to repeatedly grant waivers for missed performance criteria. As the description of the episode in this section makes clear, it is hard to explain the Fund's behavior without reference to the presence of trusted neoliberals within the government.

#### *The Neoliberal Takeover of Argentine Economic Policymaking after 1991*

Argentina in 1991 was an unlikely candidate for a neoliberal takeover. The head of government, Carlos Menem, was a Peronist who, at the time of his election to the presidency in 1989, was called "an erratic populist and economic know-nothing" in the pages of *The Economist*.<sup>58</sup> In the same way that economic breakdown spurred the turn toward neoliberals in 1976 it took a deepening crisis to force Menem to turn the top economic policy positions over to neoliberals.

On January 30, 1991 President Menem signaled a clear break with his party's past by firing his Peronist allies in the economy ministry and the central bank. They

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<sup>58</sup> "Argentina; Don't cry for me, Weimar," *The Economist*, April 29, 1989, pg. 71.

were replaced by Harvard-trained Domingo Cavallo, who took over as Economy Minister, and Chicago-trained Roque Fernandez, who became the new head of the central bank.

Markets reacted to the appointment of a new neoliberal policy team with euphoria. The Argentine stock market soared by 30 percent the day after the announcement.<sup>59</sup> Cavallo and Fernandez promised to restore Argentina's credibility with the IMF and international investors by destroying inflationary tendencies and making the Menem government's initial moves toward market liberalization permanent and irreversible. An important component of this strategy involved a purge of interventionist Peronists in the economic bureaucracy. In the first three months after his appointment, nearly 300 "Cavallo Boys," recruited from the neoliberal *Fundación Mediterranea* think tank (established in the first period of high neoliberal influence) and from American universities and the World Bank and the IMF, were appointed to positions in the Ministry of the Economy, which had been merged with the Ministry of Public Works.<sup>60</sup> In February and March Cavallo's economic team worked tirelessly to prepare a radical program that would succeed where previous stabilization efforts carried out in the decade between the two periods of high neoliberal influence failed.

*Convertibility is Unveiled*

In late March Cavallo unveiled the Convertibility Plan, which was quickly passed by the legislature into law. Convertibility consisted of three main elements: (1) the Argentine currency was pegged to the dollar at a rate of 10,000 units of the

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<sup>59</sup> Nathaniel C. Nash, "Turmoil, Then Hope in Argentina," *The New York Times*, January 31, 1991, pg. D1.

<sup>60</sup> Cavallo's close advisor Joaquin Cottani held a PhD in economics from Yale and had been recruited from the World Bank. Fernandez recruited Pablo Guidotti (Chicago PhD) from the IMF to serve as his top advisor. Javier Corrales, "Why Argentines Followed Cavallo," pp. 65-65; Nathaniel C. Nash, "Argentina's Mr. Fix-It," *The New York Times*, November 17, 1991, pg. F12; Blustein 2005: 21.

national currency<sup>61</sup> to \$1 – only with legislative approval could the exchange rate be altered; (2) the domestic currency would be freely exchanged by the central bank for dollars and other foreign currency; (3) the Argentine central bank would be required to maintain foreign reserves to fully back the domestic monetary base.<sup>62</sup> The previous two decades had witnessed a series of failed attempts to control inflation. Convertibility represented a radical attempt to induce price stability in Argentina by essentially giving up an independent monetary policy.

Convertibility was a bold stroke, but it involved some very serious risks. The success of the arrangement depended on the ability of the government to control spending. Since the central bank could no longer finance the government deficit, Argentina would have to consistently run surpluses – an unlikely outcome, given the country's dismal fiscal performance throughout the postwar period. Another major risk to the program involved an overvaluation of the currency. By pegging to the U.S. dollar at an (arguably) overvalued rate, the competitiveness of the country's export-oriented producers was threatened. Ultimately, the sustainability of the Convertibility plan depended upon the perception of the credibility of the Argentine economic authorities. Any hints of a wavering commitment to the system would trigger severe speculative pressures.<sup>63</sup>

The IMF's economists had a number of reasons to regard Cavallo's Convertibility plan with skepticism. Argentina had a poor track record of implementing "radical" stabilization efforts. The persistent fiscal difficulties posed the

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<sup>61</sup> In 1985 the peso was replaced with a new currency, the austral. At the end of 1991 the austral was replaced by the peso (10,000 australes = 1 peso = 1 U.S. dollar).

<sup>62</sup> The law allowed the central bank to issue foreign-denominated bonds for up to 20 percent of the domestic monetary base, making Convertibility somewhat different from an orthodox currency board. There is a huge economic literature on the Convertibility Plan, which I do not begin to review here. For a detailed overview of the arrangement, see Starr 1997: 83-133.

<sup>63</sup> Ricardo Lopez Murphy, who would later serve as Economy Minister, presciently noted these possibilities in April 1991. See Nathaniel C. Nash, "Plan by New Argentine Economy Chief Raises Cautious Hope for Recovery," *The New York Times*, April 28, 1991, pg. A1; Smith 1991: 63.

greatest risk to the system. Sterie Beza, former head of the Western Hemisphere Department, recalled that in the Fund's view, the kind of monetary anchor that Argentina had implemented required "a very good fiscal policy. And for Argentina that would have represented a marked improvement from past experience."<sup>64</sup> The IMF staff report that accompanied a proposal for a new standby arrangement in July 1991 warned that the convertibility scheme "requires that the fiscal objectives of the program be fully met."<sup>65</sup>

The Argentines waited until the Convertibility law was passed to begin serious negotiations with the IMF staff members. Discussions proceeded quickly, and by the end of June the authorities had come to agreement on the details of an 11 month, SDR 780 million (\$1 billion, 70 percent of quota) standby arrangement. The proposed program was not particularly generous, but Argentina's financing needs had diminished: the government was expecting large receipts from a large-scale privatization effort, the trade balance had turned positive, and the country had six times the amount of foreign reserves it held when Menem took office in 1989.

#### *The 1991 Standby Arrangement*

The Executive Board approved a new standby arrangement on July 29, allowing the Argentine authorities to immediately gain access to \$260 million in Fund resources. The program included a fairly standard list of performance criteria related to fiscal and monetary targets. It did not contain any binding structural conditions. The centerpiece of the 1991 SBA was a budget surplus target for the remainder of the year and the first two quarters in 1992. The Executive Directors were united in their support for the Cavallo-Fernandez policy team, though several continued to express

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<sup>64</sup> Quoted in Blustein 2005: 15.

<sup>65</sup> Staff report quoted in IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001* (Washington, DC: IMF, 2004), pg. 17 (full text of the report available at [http://www.ieo-imf.org/eval/complete/eval\\_07292004.html](http://www.ieo-imf.org/eval/complete/eval_07292004.html)). Other sources that note the reticence with which the Fund viewed convertibility include Mussa 2002: 5; Veigel 2005: 341.

concerns about the sustainability of the reform effort in light of the country's recent history. But overall the Executive Directors greeted the new policy team as a sign that Argentina was getting serious about reform. G.A. Posthumus, the Dutch ED, cautioned the staff and the Board members not to get "complacent" in light of "the relief that we all undoubtedly feel since Argentina's embarkation on a program of stronger macroeconomic policies."<sup>66</sup>

The Convertibility Plan spurred an impressive economic recovery. In line with similar exchange rate-based stabilizations in Latin America, the economy entered an expansionary phase: GDP growth nearly topped 10 percent for the year.<sup>67</sup> Remarkably, this was coupled with lasting price stability, with inflation dropping to 3 percent in the fourth quarter of 1991. Menem received a political payoff for the improved performance by way of a strong showing by the Peronists in early midterm elections. And in an administration that had featured four Economy Ministers in its first year and a half, Cavallo's position was secure: his approval rating among the Argentine public exceeded 50 percent, and "his international stature...soared since he introduced his economic plan in March and successfully negotiated a \$1 billion standby loan from the International Monetary Fund."<sup>68</sup>

The economic data that greeted the IMF mission in Buenos Aires to assess the country's performance under the new SBA was disappointing: the Argentines had failed to meet three performance criteria, including two separate fiscal targets. In order to draw the remaining amount under the lending arrangements, Argentina would have to receive a waiver from the Board – which the IMF's staff and management were quick to propose.

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<sup>66</sup> Minutes of the Executive Board Meeting, EBM/91/102, July 29, 1991, pg. 55.

<sup>67</sup> Schamis and Way 2003.

<sup>68</sup> Nathaniel C. Nash, "Economic Reform Aiding Peronist Campaign," *The New York Times*, August 29, 1991, pg. A11.

On December 20 the Executive Board gathered to consider the proposal from the management and staff to waive the non-observed performance criteria and allow the Argentines to continue to draw on Fund resources. There was very little resistance from the Executive Directors, despite the fact that multiple targets had been exceeded in the October review. In fact, the tone of the discussion was overwhelmingly positive. One ED reflected: “in contrast with other occasions on which Argentina had been unable to meet its performance criteria, today many tangible results of the stabilization effort can be observed;” another expressed his “wish that all members were prepared to show such active commitment to implementing needed economic reforms.”<sup>69</sup> The Board members treated the deviations as minor concerns – despite the fact that the fiscal targets were missed by wide margins – choosing instead to focus on the credibility of the Cavallo-Fernandez policy team and the structural reforms the government had pursued.<sup>70</sup>

The approval of the waiver for non-compliance with the set of performance criteria in the 1991 SBA marked an emerging pattern that would characterize the Fund’s relationship with Argentina in the era of neoliberal consolidation in Argentine policymaking. The staff, management, and Executive Directors would invariably overlook noncompliance with fiscal targets – despite the early and persistent concern about fiscal performance under the Convertibility regime – choosing to focus instead on the policy team’s successful management of inflation and commitment to a broadly neoliberal policy agenda.

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<sup>69</sup> Minutes of the Executive Board Meeting, EBM/91/172, December 20, 1991, pg. 37, 43. David Peretz, the British Executive Director, did express concerns about “such a large slippage in attaining the program’s fiscal objectives. When the original program was discussed...this and other chairs emphasized the particular importance of fiscal policy and indicated some reluctance to agree to waivers if the program targets were not met.”

<sup>70</sup> In late October the policy team announced the implementation of Executive Decree 2284, which provided a sweeping liberalization of all aspects of the Argentine economy. The law contained 122 provisions related to deregulation of trade, tax reform, capital market liberalization, reform of the social security system, liberalization of the labor market, among other areas. Office Memorandum, “Argentina – Economic Liberalization Measures,” EBD/91/296, November 12, 1991.

### *Argentina Signs its First Multi-Year Agreement with the Fund*

Further evidence of the Fund's increasing confidence in the Argentines came in the form of the negotiations, starting in late January, for a three year, \$3.6 billion (193 percent of quota) Extended Fund Facility (EFF) program. The Argentines first pursued an EFF in 1983, but uncertainty about the prospects for such a generous program had prevented the IMF from seriously considering a multi-year package until the unified neoliberal policy team of Cavallo and Fernandez was formed.<sup>71</sup>

The negotiations with the IMF over the country's first multi-year program went very quickly with few obstacles. By late February the two sides had come to an agreement on an outline of the program, and on March 31 the Fund's Managing Director, Michel Camdessus, brought the proposal before the Executive Board for approval. The EFF, in line with the greater access to Fund resources that it offered, included more conditions than in the previous two agreements. The program set fairly stringent targets for fiscal policies, including a budget surplus through 1992 (not including proceeds from the sale of state-owned enterprises). But the program was relatively light in terms of structural conditionality.<sup>72</sup> The two structural performance criteria were the only binding structural conditions in any of the programs Argentina received over the next decade, and, as discussed below, the government had difficulty implementing even these modest structural reforms.

The Executive Board enthusiastically supported the staff and management's proposal. The Minutes of the Board's discussion provide additional evidence to support my claim that the presence of neoliberals in the borrowing government helps reassure the Fund that the borrower can be trusted. One Executive Director praised the

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<sup>71</sup> The EFF was an important seal of approval from the Fund: it would help unlock debt relief under the terms proposed by the U.S. Treasury Secretary, Nicholas Brady. Aggarwal 1996: 453.

<sup>72</sup> The proposed three year program contained structural performance criteria for the implementation of a tax reform bill and a reform of the social security system.

“radical – and, we hope – permanent *change in the authorities’ policy attitude that lies at the heart of their success*” – a shift toward consolidated neoliberalism that was “rapidly translating into a growing policy credibility for the authorities.”<sup>73</sup> The presence of Cavallo in the Economy Ministry and Fernandez in the Central Bank did much to signal that to the Fund that the likeminded Argentine officials could be counted on to pursue the Fund’s preferred set of policies. A comment from the Belgian Executive Director is revealing in this respect. Jacques de Groote reminded his fellow Board members: “we can all recall how skeptically we viewed Argentina’s request [in June 1991] for a standby arrangement; with the benefit of hindsight, it was clearly a good decision to approve that request and to be rather generous in financing it.”<sup>74</sup> The willingness of the Fund to give the neoliberals the benefit of the doubt seemed to have paid off.

The news from Argentina was positive through most of 1992. Program reviews in both June and August showed that all of the quantitative performance criteria were met within comfortable margins.<sup>75</sup> Convertibility continued to produce strong economic performance: inflation remained low, foreign reserves reached \$10 billion, and foreign capital flooded into the country. Importantly, the external debt load, which had grown in the decade after the first period of high neoliberal influence, lightened considerably. In April, shortly after the approval of the IMF program, Argentina and the private banks reached agreement on a voluntary debt reduction, and in August the authorities secured a generous repayment schedule for official creditors. The events prompted the *Financial Times* to cautiously observe that “Argentina may be on the road to a fundamental economic recovery” thanks in large part to Cavallo, the

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<sup>73</sup> Minutes of the Executive Board Meeting, EBM/92/41, March 31, 1992, pg. 23 [italics added].

<sup>74</sup> Minutes of the Executive Board Meeting, EBM/92/41, March 31, 1992, pg. 50.

<sup>75</sup> Staff memorandum, “Argentina – Review under Extended Arrangement,” EBS/92/144, September 1, 1992.



“Harvard-trained economist who provides the intellectual firepower for reform.”<sup>76</sup>

But problems emerged again in the review of Argentina’s progress in the fourth quarter of 1992. Specifically, the government failed to carry out the reform of the social security system as specified in the agreement. The staff and management proceeded to bring a waiver before the Executive Board to allow the program to continue without interruption. None of the Executive Directors expressed serious concerns about the program in spite of the lack of progress on the structural performance criteria, and a waiver was approved on December 30.<sup>77</sup>

The IMF’s concerns about the quasi-currency board abated during 1993, when the Argentine economy grew at 6 percent and annual inflation nearly hit single digits. The Fund’s staff and management were willing to overlook two persistent problems that had emerged. The first was the inability of the government to pass the reform of the social security system. In July 1993 the Board accepted another modification of the program to allow the authorities to push the date for legislative approval of the social security reform bill back. The other problem that the Fund noted was the real appreciation of the peso. Between March 1991 and the end of 1993 the currency appreciated by 50 percent.<sup>78</sup> Yet the IMF did not apply any serious pressure to the Argentines to tighten fiscal policy as the current account balance turned negative. Further, the Fund expressed little concern about unemployment that had jumped to nearly 13 percent in Buenos Aires in 1994.<sup>79</sup>

The Argentine economic policy team also discovered the support of international investors. In December 1993 foreign investors purchased – in a single day – over \$1 billion in 10-year bonds issued by the government. The voracious

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<sup>76</sup> Stephen Fidler, “Don’t Cry for Argentina,” *Financial Times*, May 18, 1992.

<sup>77</sup> Minutes of the Executive Board Meeting, EBM/92/158, December 30, 1992.

<sup>78</sup> Minutes of the Executive Board meeting, EBM/93/99, July 14, 1993; IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 17.

<sup>79</sup> Pastor and Wise 1999: 483.

appetite for Argentine dollar-denominated bonds fed a doubling of the country's external debt (from \$62 billion in 1992 to \$142 billion in 1998), an increase that would have serious repercussions when economic performance weakened later in the decade.<sup>80</sup> Figure 5.2 provides historical data on Argentina's external debt; I have marked the implementation of Convertibility in 1991 for illustrative purposes.<sup>81</sup> The figure shows the rapid debt buildup after 1994.

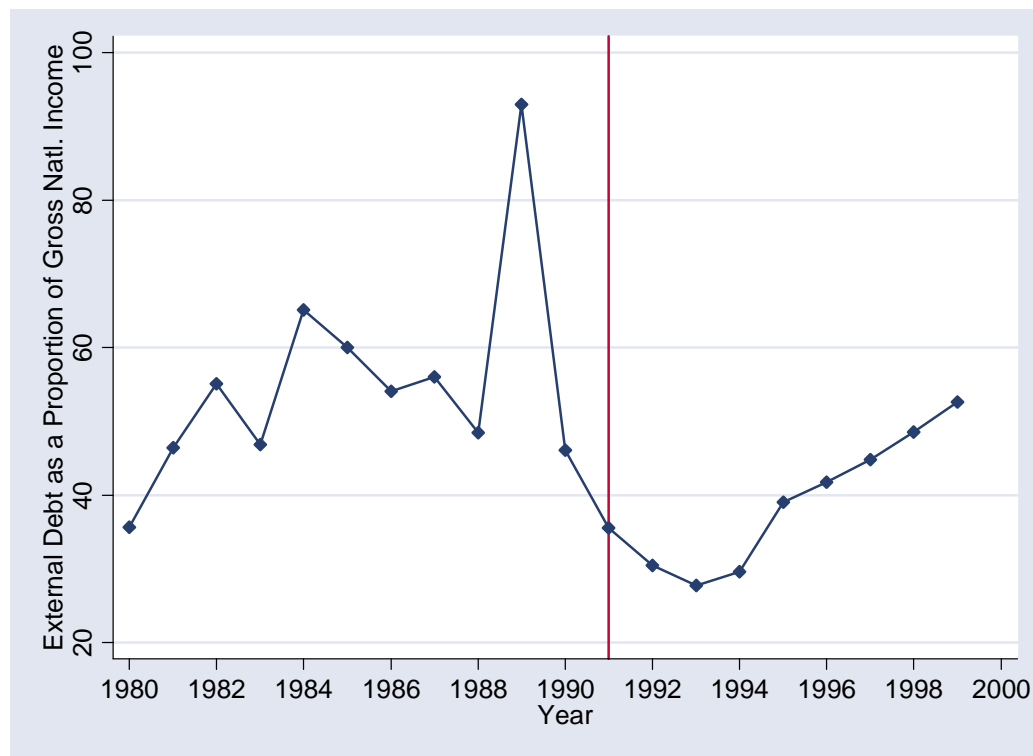


Figure 5.2: Argentina's External Debt, 1980-2000

The Convertibility system faced its first serious test at the end of 1994. Earlier in the year the IMF mission noted that fiscal progress had slowed, and the Argentines failed to meet the fiscal targets for the first quarter of the year. Nonetheless, the country passed its July review without facing a suspension or tightening of the fiscal

<sup>80</sup> Jonathan Fuerbringer, "Argentine Notes Draw Investors," *The New York Times*, December 10, 1993, pg. D16; Mussa 2002: 16.

<sup>81</sup> The spike in the figure in 1989 corresponds to the country's descent into hyperinflation, a period which is discussed in the fourth episode in this chapter. The data on external debt are from the World Bank's *Global Development Finance* database.

performance criteria thanks to another set of waivers. Noting that her authorities were “happy to accept the waivers recommended in the proposed decision,” the American Executive Director, Karin Lissakers, remarked “with an election approaching, some relaxation of spending discipline might be expected, *even in a team as determined as the Argentine authorities.*”<sup>82</sup> In late September Cavallo felt confident enough to announce that Argentina would not need the final two drawings under the Extended Fund Facility. Outside observers worried that the cancellation of the final tranches of the EFF indicated that the authorities had lost control of the fiscal situation in the run-up to the May 1995 presidential elections, in which Menem sought reelection.<sup>83</sup>

*Termites in the Woodwork: The IMF and Argentina, 1995-1998*

In late December 1994 the Mexican currency crisis exploded. The exogenous shock triggered a confidence crisis among investors in Argentina, who ignited a massive capital outflow. Between January and April 1995 8 billion dollars – accounting for 18 percent of all deposits – left the country. The stock market lost 30 percent of its value in the first two months of the year. Cavallo compared the events of early 1995 to the financial panic of 1929.<sup>84</sup> The Argentines hoped that a series of auctions of short-term treasury bills would staunch the flow, but the severity of the crisis forced the Cavallo-Fernandez team to turn back to the Fund in late February to negotiate terms to restart the EFF.<sup>85</sup> While investors continued to bet on an Argentine devaluation and the end of the Convertibility system, in March the Fund announced that it would allow the Argentines to draw on the remaining \$400 million and would begin negotiation to supplement the existing arrangement with an additional \$2

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<sup>82</sup> Minutes of the Executive Board meeting, EBM/94/64, July 18, 1994, pg. 15 [italics added].

<sup>83</sup> “The Foundations Have Been Laid,” *The Economist*, November 26, 1994, pg. 5 of Survey of Argentina; Martin Krause, “Argentina’s IMF Battle Doesn’t Excuse Wasteful Spending,” *Wall Street Journal*, December 30, 1994, pg. A7.

<sup>84</sup> Pastor and Wise 1999: 484; Calvin Sims, “Argentina, a Victim of Mexico’s Fall, Tries to Recover,” *The New York Times*, March 12, 1995, pg. C12; Starr 1997: 98.

<sup>85</sup> “Peso Crisis May Force Argentina Back to IMF,” *Financial Times*, February 22, 1995, pg. 10.

billion. The stakes were high: the system under which Argentina had conquered inflation was at serious risk in the wake of the Mexican devaluation.

In retrospect, the months following the Mexican crisis might have been an ideal time to leave the Convertibility system. The regional crisis presented a dramatic, unanticipated contingency that would explain the policy team's choice without undermining the government's credibility. But the Argentines showed a strong commitment to the arrangement. Cavallo announced a new set of austerity measures while the crisis in the financial system continued, and the country teetered but managed to avoid a total economic collapse. At this point the Fund's position on the hard peg shifted from acceptance of the Argentines' commitment to the system to outright support for the currency board.<sup>86</sup> In September the Executive Board approved the \$2 billion augmentation of the EFF along with waivers for missed performance criteria in the previous months. For the first time since 1977 Argentina was able to draw the full amount of the resources promised under an IMF lending program.

In hindsight the period between 1996 and 1998 represents a squandered opportunity for the Fund to enforce policies that may have headed off the impending Convertibility crisis. Argentina signed two agreements, one in April 1996 and another in February 1998, during a period in which economic performance was steady but the warning signs about the sustainability of the Convertibility system accumulated. Yet, as discussed below, the IMF was very lenient in the two main areas of concern – fiscal policy and structural reforms – that many Fund officials identified as critical for the sustainability of the hard peg.

#### *The 1996 Standby Arrangement*

In February 1996 a Fund mission led by Tomas Reichmann of the Western

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<sup>86</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pp. 18-19; Mussa 2002: 21.

Hemisphere Department began negotiations with Cavallo and the central bank governor on a new agreement. Despite the fact that Argentina had exceeded the Fund's targets for the fiscal deficit in 1995 by 144 million pesos, the IMF issued a waiver to allow the government to obtain the final drawing under the Extended Fund Facility and was receptive to the policy team's interest in signing a new agreement. Negotiations were quick and easy, and in April the Executive Board approved the proposal for a 21-month, SDR 720 million (\$1.04 billion, 46.8 percent of quota) standby arrangement. The proposed program was small in size, but relatively light in terms of conditionality. There were no binding structural conditions included in the agreement. Approval of the program raised Argentina's outstanding obligations to the Fund to \$4.5 billion (290 percent of the country's total quota).

At the outset of the 21 month standby arrangement the IMF's staff members flagged fiscal performance as the crucial element of the program's success.<sup>87</sup> The post-mortem issued by the IMF's Independent Evaluation Office (IEO) describes three reasons why fiscal consolidation was essential to the maintenance of the hard peg. First, the quasi-currency board abrogated monetary policy, making fiscal policy the only demand-management tool available to policymakers. Second, the central bank's reserve requirement meant that the government needed to maintain sufficient external borrowing capacity to back up the financial system in the event of a crisis. Finally, an increasing debt burden threatened the credibility of the government's commitment to exchange pesos for dollars at par.<sup>88</sup>

There was a strong case, then, for the IMF to be tough on Argentina with

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<sup>87</sup> The executive summary that accompanied the Argentine authorities' Letter of Intent reported that "there is general agreement on the need to maintain convertibility...The staff believes that it is crucial to monitor fiscal developments closely." See "Argentina – Request for Standby Arrangement," EBS/96/45, March 15, 1996.

<sup>88</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pp. 23-24.

respect to performance on fiscal targets in the standby arrangement. But the IMF was anything but vigilant in enforcing fiscal consolidation. The Fund's leniency has been well documented. The comprehensive report issued by the IEO summarizes the IMF's weak enforcement efforts: "the IMF repeatedly accommodated Argentina's slippages in meeting fiscal performance criteria from mid-1996 onwards, either to give the authorities credibility or in view of their good faith efforts in the face of political constraints."<sup>89</sup> Michael Mussa, who served as a high-ranking Fund official, notes that between 1995 and 1998 "the deficit of the Argentine government was within quarterly limits prescribed at the beginning of each year under the IMF-supported program less than half of the time."<sup>90</sup>

Noncompliance started as early as July, when Argentina's fiscal deficit exceeded the target by \$1 billion. In October the fiscal deficit target was raised from \$2.5 billion to \$6 billion. In both cases the Executive Board approved waivers for nonobservance of the fiscal performance criteria. Most worrisome was that the fiscal situation was deteriorating at a time when growth was strong and the central government's receipts were up. Instead of tightening its fiscal goals for Argentina, the IMF became looser as the economy expanded through 1998. It is hard to understand the Fund's willingness to tolerate deviations from the program without looking to the character of the Argentine policymakers. The IEO's review suggests that, in spite of the pattern of noncompliance, within the Fund "there was almost universal confidence expressed in the authorities' ability and willingness to implement the appropriate policies."<sup>91</sup>

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<sup>89</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 37.

<sup>90</sup> Mussa writes further "it is difficult to understand why the Fund did not make active use of its conditionality to press the Argentine government to maintain a more responsible fiscal policy" (2002: 18-19).

<sup>91</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 37.

Aside from fiscal policy, the IMF's other major concerns related to structural factors within the Argentine economic system. Two issues loomed large from the day that Convertibility was implemented in April 1991. First, the Argentine labor market was excessively rigid. Sebastian Edwards enumerated the problems: "payroll taxes are close to 40%; collective bargaining procedures favor monopolistic behavior by unions and severely limit negotiations at the firm level; labor taxes earmarked for social services provided by unions are a source of corruption; and a surrealistic system of severance payments burdens small and medium enterprises."<sup>92</sup> The inflexible labor market practices were incompatible with the hard peg: since exchange rate manipulation was off the table, adjustment to negative terms of trade shocks had to come from a fall in real wages. The staff and management of the Fund were aware of this weakness and from the mid-1990s encouraged the Argentine authorities to pass a comprehensive labor market deregulation. In fact, the IMF tried to include the submission of labor market legislation to Congress as a prior condition in several agreements. But even the watered-down labor market reform bills that the government produced were rejected by the legislature; it was not until 2000 that a bill made it through Congress.<sup>93</sup> It is remarkable that none of the programs after 1996 included even a single binding structural condition related to some aspect of the labor market regulatory system in Argentina.

The second structural problem involved the central government's fiscal relationship with the provincial governments. Briefly, Argentina suffers from a high degree of vertical fiscal imbalance: the 23 provinces delegated most of the revenue-raising in the country to the central government in Buenos Aires, while retaining

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<sup>92</sup> Sebastian Edwards, "The Americas: More IMF austerity won't cure what ails Argentina," *Wall Street Journal*, August 30, 1996, pg. A9.

<sup>93</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 31-32.

significant autonomy in social spending.<sup>94</sup> Argentine fiscal federalism was enshrined in a series of tax sharing agreements (*coparticipación*) which established the rules by which the central government shared taxes collected by the central government with the provinces. The system, which traced its political roots to severe center-region conflicts in the mid-1800s, had some perverse consequences: efforts by the federal government to raise tax revenues (in a country with weak extractive capacity) were undermined by increased spending in the provinces, which the government was obliged to fund.

The IMF understood that *coparticipación* posed a threat to fiscal sustainability of the Convertibility system. In the first Executive Board meeting after the hard peg was implemented, one Executive Director expressed concerns about the long-term implications for Convertibility: “There are, of course, uncertainties. Perhaps the major one is the fiscal behavior of the provinces. Past experience shows that this is a particularly difficult area.”<sup>95</sup> Menem was able to pass two bills in 1992 and 1993 that attempted to reduce the percentage share of revenues reserved for the provinces. The provincial governors accepted a reduced share of central revenues in exchange for a guaranteed minimum level of support (*piso mínimo*) below which the federal government “would not dip, regardless of actual revenue collection.”<sup>96</sup> When times were good, the reform helped alleviate fiscal problems; when the economic situation worsened after 1998 the *piso mínimo* exacerbated the government’s economic problems.

The IMF’s pressure on the Argentines to reform the fiscal imbalance between the provinces and the federal government was mainly rhetorical. While the Fund may

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<sup>94</sup> Argentina’s peculiar form of fiscal federalism has spawned its own literature, which I do not review here. Some important work includes Eaton 2005; Gibson and Calvo 2000; Remmer and Wibbels 2000; Spiller and Tommasi 2007.

<sup>95</sup> Minutes of the Executive Board Meeting, EBM/91/102, July 29, 1991, pg. 44.

<sup>96</sup> Eaton 2005: 98.



not have been able to exert much influence on center-province relations due to the complex political dynamics at play, it also the case that the IMF did not even try to enforce changes in this area. Only in the March 2000 standby arrangement was reform of provincial revenue sharing system included as a (non-binding) structural “benchmark.” Indeed, one of the most striking aspects of the IMF-Argentina relationship from 1991 onward was “the paucity of formal structural conditionality, particularly in the form of performance criteria;” further, “what little conditionality the programs contained was not vigorously enforced”<sup>97</sup>

*Cavallo Goes (But the Neoliberals Stay)*

On the afternoon of July 26, 1996 Cavallo, by all accounts a difficult personality who clashed repeatedly with President Menem during his time in office, was removed after a heated argument with the President. After five and a half year in office Cavallo left as the longest-lived finance minister in modern Argentine history. Cavallo’s enemies within and outside the government rejoiced, but Cavallo’s ouster did not signal the shift away from the neoliberal policy team that had run Argentine economic policy since 1991.

Menem immediately moved the Chicago-trained central bank governor, Roque Fernandez, to head the economy; another PhD economist from the University of Chicago, Pedro Pou, became the new central bank governor. The international financial community viewed the cabinet shakeup with relief. *The Economist* called Fernandez “a respected economic technocrat” and “another pillar of orthodoxy.”<sup>98</sup> For financial journalist Paul Blustein, the appointments following Cavallo were evidence

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<sup>97</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 36.

<sup>98</sup> “Argentina: Dropping the pilot,” *The Economist*, August 3, 1996, pg. 37 (first quote); “Argentina after Cavallo,” *The Economist*, August 3, 1996, pg. 49 (second quote). Upon his removal, *The Economist* assayed Cavallo’s importance thusly: “Brusque at home, Mr Cavallo was a brilliant salesman to the world. Rightly or wrongly, it is the world that counts; and here too it wants to be reassured, promptly, that there will be continuity.”

that neoliberalism had become firmly entrenched in the economic policymaking apparatus: “Argentina’s transformed character was readily apparent in the sterling credentials and polished manner of the Economy Ministry’s top officials.”<sup>99</sup>

The IMF’s officials were also reassured by Menem’s retention of neoliberals as the country’s top economic authorities. During a visit to Buenos Aires, the Managing Director noted that the relationship in the previous decade was strained over “important doctrinal differences.” With the neoliberal consolidation of economic policymaking in Argentina (as evinced by the smooth transition from Cavallo to Fernandez), “today there is no longer any doctrinal divide.”<sup>100</sup> Camdessus expressed confidence that neoliberal policies would not be reversed “not just *because I trust in the men who manage it*, but because the process is irreversible.”<sup>101</sup>

The IMF chose to focus on the ideational continuity among the policy elites rather than the signs that the broader political consensus that supported the neoliberal agenda since 1991 had started to unravel. The head of the Center-Left coalition in opposition to Menem complained that removing Cavallo was not enough: “we must change the dog, not its collar.”<sup>102</sup> The labor movement, which had been relatively quiescent under the early years of the Peronist government, began to mobilize against high unemployment and budget cuts. On August 8 the central labor confederation announced a general strike against the IMF-led program; in late September a second general strike ended with 100,000 angry protesters camped in front of the presidential palace. Violent protests spread throughout 1997, including a series of clashes between villagers and police in several provinces that coincided with the visit by Michel Camdessus.

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<sup>99</sup> In addition to Fernandez and Pou, the economic policy team retained Miguel Kiguel (PhD from Columbia) and added Pablo Guidotti (PhD from Chicago) as top advisors. Blustein 2005: 31.

<sup>100</sup> Blustein 2005: 29 (quotes).

<sup>101</sup> “Argentina after Cavallo,” *The Economist*, August 3, 1996 [italics added for emphasis].

<sup>102</sup> “Argentina: Dropping the pilot,” *The Economist*, August 3, 1996, pg. 37 (quote).

*Divorce, Argentine-Style: The IMF and the Crisis, 1998-2002*

The Independent Evaluation Office's report on the Fund-Argentina relationship in the 1990s concludes that, by 1998, "the information available at the time – the authorities' poor compliance record with earlier programs, the unraveling of the political consensus that had backed the reform program of the early 1990s, the absence of a clear balance of payments need – would have been sufficient reason to end the program relationship."<sup>103</sup> Nonetheless the IMF plowed ahead with another three year Extended Fund Facility agreement worth SDR 2.08 billion (\$2.8 billion, 135 percent of quota) in February 1998.

The 1998 EFF was a watershed for several reasons. It was a precautionary program, meaning that the authorities would only draw on Fund resources if a crisis hit. The Argentines hardly needed the funds in early 1998. In the previous year the government had floated a record amount of debt on international financial markets. But the global financial context in which the program was approved was uncertain. Financial crisis had spread across East Asia in late 1997, and contagion from Asia to other emerging market economies was not unthinkable.

The precautionary EFF was also an extremely lenient program. It included the fewest number of binding conditions in any IMF agreement since 1977. The generosity and leniency of the proposed program prompted concern among the staff members outside of the Western Hemisphere Department. A memo from Teresa Ter-Minassian, the new Deputy Director of the Western Hemisphere Department, to the Fund's management highlighted serious concerns from the Research, Policy Development and Review, and Fiscal Affairs departments "about the adequacy of the proposed reform agenda for an extended arrangement." A separate memo from the

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<sup>103</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pp. 37-38.

Research Department at the time of Board approval warned that “the program is not ambitious enough to warrant Fund support in the form of a high access extended arrangement.”<sup>104</sup> Ultimately the concerns fell on deaf ears: on February 4 the Executive Board approved the precautionary multi-year arrangement.

Over the next two years the situation confronting the Argentine economic policy team steadily worsened. Some of the problems were of the government’s own making; many of the problems were not. A detailed examination of the conditions that led to the crisis and default of late 2001 is beyond the scope of this chapter, but several factors that set Argentina on a path toward financial ruin can be identified: (1) the dollar’s strong appreciation relative to the euro, which harmed Argentine industrialists; (2) the twenty percent fall in international agricultural prices, which harmed Argentine farmers; (3) a drawback of international investment in the wake of the East Asian crisis and the Russian default; (4) the devaluation of the Brazilian real in January 1999; (5) excessive deficit spending by the government in the period prior to the 1999 presidential election (which the Peronists lost to the *Alianza*<sup>105</sup> candidate Fernando de la Rúa).<sup>106</sup>

In April 1998 the Fund’s Teresa Ter-Minassian noted in comments to the press that “the Argentine economy contains a sort of Molotov cocktail.”<sup>107</sup> The sustainability of the country’s debt burden became more and more uncertain as the economic performance slackened. In 1999 output contracted by 3 percent. As tax

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<sup>104</sup> Staff memoranda are quoted in Blustein 2005: 51. Dissent among the staff is also reported in the IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina*. I rely heavily on official reports and journalist accounts in the remaining section of the chapter. A twenty-year moving wall for internal memoranda and a ten year wall for Executive Board documents prevented me from gaining access to archival documents for the post-1998 period.

<sup>105</sup> The disintegration of the Radical Party in the mid-1990s led to the creation of a new Center-Left party, the Front for a Country in Solidarity (FREPASO), which captured much of the Radicals’ middle class support base. In 1997 FREPASO and the Radicals combined to form *Alianza por Trabajo* as a viable electoral alternative to Menem’s Peronist Party.

<sup>106</sup> On the conditions that led to the crisis, see IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pp. 20; Powell 2002: 1-44.

<sup>107</sup> *Clarín*, April 3, 1998; Blustein 2005: 54 (quote).

revenues plunged in the midst of the deepening recession, investors became nervous and the cost to the government of external borrowing increased. Rather than use its leverage to enforce better fiscal discipline or to entertain a possible exit strategy from Convertibility, the Fund continued to place its trust in the hands of the Argentine policymakers. Neoliberals retained control of economic policymaking after the election of the center-left candidate Fernando de la Rúa to the Presidency in October 1999: José Luis Machinea, the Minnesota-trained economist who had played a central role in negotiations with the Fund in the mid-1980s, became the new Minister of Economy. Pedro Pou was retained as the head of the central bank.

Argentina's performance under the 1998 EFF was poor. It missed fiscal targets by wide margins, and the Congress dragged its feet on the passage of a new bill mandating changes to labor laws.<sup>108</sup> By mid-1998 its trade deficit had widened. Nonetheless, waivers were approved in July and December 1998 and March 1999 to allow the program to continue, although the Argentines did not draw on the precautionary loan.

By the time an IMF mission arrived in Buenos Aires in January 2000 to negotiate a new program to replace the expiring precautionary EFF, Argentina's debt situation had become more precarious. Yet the Fund remained optimistic about the country's fortunes for the next year, forecasting economic growth at greater than 3 percent. The IMF mission, jointly led by Teresa Ter Minassian and Thomas Reichmann, focused on the key issues that plagued previous agreements: the central government's fiscal balance, excessive social spending by provincial governors and the government's willingness to cover provincial debts (totaling nearly \$4 billion in 1999), and the stalled labor market reform.<sup>109</sup> In late February the lower house of

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<sup>108</sup> *Ambito Financiero*, April 2, 1998; *Ambito Financiero*, July 21, 1998; Blustein 2005: 56.

<sup>109</sup> *Buenos Aires Economico*, January 14, 2000.

Congress finally approved the long-delayed “flexibilization” of labor laws, paving the way for the staff to submit a new Letter of Intent to the Executive Board.

The new standby arrangement was approved on March 10. The program was for three years, and was quite generous at SDR 5.4 billion (\$7.2 billion, 255 percent of quota). Argentina’s debt burden had spiked in the past two years, but it retained good access to external finance, so the policy team indicated that their intention to use the program as a precaution.<sup>110</sup> Conditionality was light; the Argentine policymakers saw no great difficulties in achieving the modest fiscal targets, and, once again, the program did not include structural performance criteria. All of the structural content of the agreement was considered benchmarks, which would be assessed at the time of reviews, but if violated would not trigger an automatic suspension without a waiver.

A series of political and economic events in the six months after the SBA was approved turned Argentina from a star pupil to a basket case with remarkable speed. By May the Argentine policy team led by Machinea and Pou was forced to implement emergency belt-tightening measures to achieve the budgetary targets in the agreement. The budget cuts generated massive protests organized by the CGT, the central labor organization. President de la Rúa blamed the social discontent on the IMF, claiming that the 80,000 anti-austerity protesters on the Plaza de Mayo were “a wake-up call to international financial agencies, for them to pay proper attention to social solidarity as well.”<sup>111</sup> The events caused consternation among investors, and Argentina’s easy access to external financing became uncertain. Consequently, Economy Minister José Machinea flew to Washington in August to gain access to the undrawn portion of the standby arrangement. He succeeded in getting the Fund to waive the nonobservance of

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<sup>110</sup> In the week before the Board’s approval of the standby arrangement, the Argentine government sold \$1 billion in ten-year, dollar-denominated bonds. Tamar Han, “New Issues: Argentina Sells Some More,” *Emerging Markets Debt Report*, March 13, 2000.

<sup>111</sup> *El Cronista*, June 1, 2000, pg. 5.

the fiscal target for August (Argentina had missed the binding target by over \$500 million) and to raise the fiscal deficit ceiling from \$4.7 to \$5.3 billion.<sup>112</sup>

A major political crisis in October forced the Fund and Argentina to take drastic actions to stave off an impending economic collapse. The Vice President, Carlos Alvarez, resigned in protest of bribes linked to the de la Rúa government that were offered to Congressional representatives during the fight over the labor market bill. The spreads on Argentine debt – the difference between the price the U.S. pays to borrow and the price paid by the Argentine government to investors – began to increase rapidly, making service on the country's \$120 billion external debt much more onerous. Depositors became increasingly nervous about the possibility of a devaluation of the peso. Nearly \$800 million in bank deposits were withdrawn from the country in October.

The Fund acted quickly to put together a new package to help the Argentines preserve the Convertibility system and avoid a complete collapse. Staff and management focused on two issues: dramatically increasing Argentina's access to external resources, and forcing the Argentine authorities to commit to a tighter set of fiscal targets. Between October and January 2001, the Fund cobbled together a \$40 billion augmentation (commonly referred to as the *blindaje*, or "armor") of the initial agreement. The Fund increased Argentina's access to SDR 10.6 billion (\$14 billion, 500 percent of quota). The remaining amount came from the other international financial institutions and creditors governments such as the U.S. and Spain.

The fiscal policy was a source of tension within the institution. Some IMF economists – particularly those in the Policy Development and Review Department (which evaluates the content of all programs) – pushed for a tightening of fiscal and structural targets. But Machinea had a high-ranking ally in the Fund's management.

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<sup>112</sup> *Buenos Aires Economico*, August 15, 2000; *El Cronista*, September 8, 2000.

The deputy managing director Stanley Fischer accepted the Argentines' claims that most they could plausibly do in terms of the fiscal deficit in 2001 was \$6 billion (the 2000 agreement aimed at deficit of no more than \$4.7 billion). The new Letter of Intent included fiscal performance criteria to limit the fiscal deficit to \$6.5 billion. With the U.S Treasury firmly in support of the freeing of additional resources for the Argentines, the Executive Board unanimously approved the modifications on January 12.<sup>113</sup>

The January 2001 augmentation of the SBA did not succeed in restoring external confidence in Argentina. The data on fiscal performance from the first two months of the year indicated that Argentina had fallen out of compliance. On March 2 the Economy Minister José Luis Machinea resigned in the face of the growing crisis. Machinea's replacement, Chicago-trained economist Ricardo Lopez Murphy, took immediate action to get control of the fiscal situation. The IMF regarded the new Economy Minister as "a strong choice."<sup>114</sup> As a signal of the unsettled nature of Argentine politics, Lopez Murphy lasted less than three weeks. He resigned when his attempts to pursue a draconian austerity package were rebuffed by President de la Rúa.

Desperate to regain credibility with international investors, de la Rúa brought back Domingo Cavallo to head the economy ministry. Cavallo's headstrong tendencies emerged early in his second term as Economy Minister. In April he engineered the replacement of the central bank governor Pedro Pou with a more agreeable official; later that month, Cavallo proposed modifying the Convertibility system to tie the peso to a combination of the euro and the dollar. The announcement was regarded in financial circles as a warning of a future devaluation, heightening the flight from the banking system.<sup>115</sup>

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<sup>113</sup> Blustein 2005: 96-97, 106.

<sup>114</sup> "A Surgeon without a Scalpel," *Business Week*, March 19, 2001, pg. 30.

<sup>115</sup> di Tella and Vogel 2004: 3; Blustein 2005: 120.



With Cavallo once again helming Argentina's economic policy, the IMF reviewed the progress of the standby arrangement in May. The news was bad: as expected, the government had badly missed its fiscal targets. Nonetheless, the Fund approved yet another waiver and allowed the country to receive another \$1.2 billion tranche of the lending arrangement. The IMF's approvals did not do much to assuage nervous financial markets. Argentina's spread remained around 1,000 basis points; at this level of country risk, a default on external debt obligations became a serious possibility.

Over the next three months Cavallo pursued a series of radical actions to save the Argentine economy. Each of these policies was carried out by Cavallo with little input from the IMF. In June the policy team announced a massive voluntary debt swap (the *megacanje*) that lengthened the maturities and changed the yields on around \$30 billion of foreign debt.<sup>116</sup> This gave the Argentines a small amount of breathing room by deferring a large amount of interest payments until 2006. In an effort to stimulate exports to grow Argentina out of the crisis, Cavallo proposed a dual exchange rate for exports (1.08 pesos to the dollar). The policy was a de facto 8 percent devaluation and another signal to financial actors that the authorities' commitment to Convertibility was wavering.<sup>117</sup> Finally, in a last-ditch attempt to convince markets of the hard peg's sustainability, Cavallo announced that the country would eliminate the fiscal deficit at both the federal and provincial levels. The markets regarded the announcement as entirely incredible, and spreads shot to 1,600 basis points.

#### *Uncertainty and the Fund's Decision Making Process in September 2001*

In chapter 2 I argued that the IMF has to make decisions in the face of

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<sup>116</sup> Blustein 2005: 129.

<sup>117</sup> di Tella and Vogel 2004: 4; Blustein 2005: 131; IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 51; Clifford Krauss, "Argentine with a Headache: The Economy," *The New York Times*, July 18, 2001, pg. A12.

uncertainty. Uncertainty in the lending process has multiple sources, and it implies that the IMF's staff and management have difficult affixing a precise probability to the success of a program. At no time in the Fund's long relationship with Argentina is this claim more clearly demonstrated than it is in the September 2001 decision to augment the standby arrangement by an additional \$8 billion.

In August the Argentines "requested the IMF for the rapid disbursement of a large amount of support" to prevent the country's banking system from collapsing.<sup>118</sup> The Managing Director, Horst Kohler (who had replaced Michel Camdessus) decided to propose an augmentation of the unchanged existing program by \$8 billion. A week before the Executive Board meeting to discuss the proposal, Kohler called a meeting with the senior officials at the Fund. The purpose of the meeting was to gather assessments of the prospects for Argentina's program from the institution's top minds. None of the meeting's participants were enthusiastic about the program; in fact, most were quite pessimistic. But for my purposes the most revealing aspect of the accounts of the meeting is the inability of the group to generate a common subjective probability for the outcome under consideration. Individuals were willing to hazard guesses about the program's chances: the estimated probability of success ranged from just above zero (expressed by Kenneth Rogoff, the new chief economist and head of the Research Department) to, at best, around 30 percent. Stanley Fischer, the Fund's second in command, is reported to have commented at the end of the meeting that none of the people in the room could know with any certainty that the augmentation of the standby arrangement would or would not work. In his view, the Fund had to give the benefit of the doubt to the Argentine policy team. The minutes of the meeting indicate that the other supporters of the program noted that "precise quantification was

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<sup>118</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 51.

not really meaningful.”<sup>119</sup>

*The September 2001 Augmentation and the Collapse of the Argentine Economy*

Fischer’s view triumphed, and on September 7 the Executive Board approved the addition of an extra \$8 billion to the standby arrangement. The approval enabled the Argentines to immediately draw on \$6.3 billion in IMF resources – the second largest single disbursement in the institution’s history. The total resources in Argentina’s program amounted to 800 percent of quota.

The approval was not unanimous, however. The Dutch and the Swiss Executive Directors abstained from the vote as a way of indicating their displeasure with an unsustainable program.<sup>120</sup> The remaining EDs that cast their vote in favor of the program “appeared impressed by the strength of what they saw as the authorities’ resolve, and some wished to give them the benefit of the doubt on their ability to implement the measures they had announced.”<sup>121</sup> The September augmentation briefly help improve market sentiments, but soon the spreads climbed back to 1,400 basis points. Over the next three months the Fund would “essentially adopt a passive stance” while Argentina hurtled toward a default.<sup>122</sup>

The final collapse came in December. In the previous month Cavallo had announced a new tax package that, in the IMF staff’s view, “was not consistent with fiscal reality.”<sup>123</sup> At the end of November the run on banks accelerated to the point that the banking system was losing \$1 billion each day. On December 1 the government decided to place limitations on bank withdrawals and other personal

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<sup>119</sup> The meeting is described in two different sources. See Blustein 2005: 140-42; IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 53.

<sup>120</sup> Blustein 2005: 154.

<sup>121</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 54. Michael Mussa, formerly the Fund’s chief economist, argues that an important reason for the September augmentation was that “Argentina was generally seen as a country deserving sympathy and support” (2002: 47).

<sup>122</sup> Blustein 2005: 157.

<sup>123</sup> IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991-2001*, pg. 56.

financial transactions (the *corralito*). Four days later the IMF pulled the plug on Argentina, announcing that it would not disburse the next \$1.24 billion tranche of the standby arrangement. Officially, the violation of the fiscal deficit target by over \$2 billion was the reason for the program's suspension. For a country in which foreign reserves could barely cover the domestic money supply, the IMF's decision was essentially an admission of Argentina's insolvency. After the remaining staff members left Buenos Aires and Cavallo returned from a last-ditch attempt to win support from the Managing Director, the capital exploded in violence. Cavallo resigned, then de la Rúa; in three weeks, four different presidents were sworn in. On January 3, 2002 the interim president Eduard Duhalde officially declared that Argentina was in default on its debt. Three days later Argentina left the Convertibility system. After thirty years of nearly continuous engagement, the IMF's relationship with Argentina had effectively come to an end.

#### *Summary of the Second Period of High Neoliberal Influence*

The second episode provides strong evidence against the view of the IMF as an efficient, technocratic institution. The evidence presented in the previous pages shows that the staff members were well aware of the risks engendered by the Convertibility arrangement: the issues of fiscal indiscipline, stunted structural reforms in the areas of the labor market and relations with the provinces, and the rapid buildup of debt were all on the Fund's radar. Yet the IMF chose not to enforce those policies. Good reason, then, that former Fund official Michael Mussa calls the institution's behavior in Argentina in the 1990s a "failure of intellectual courage."<sup>124</sup>

The Fund's treatment of the neoliberals in the decade after 1991 was extraordinarily lenient. The first program in the episode, negotiated in June 1991, was completed with the help of waivers for noncompliance with multiple binding

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<sup>124</sup> Mussa 2002: 47-48.

conditions. Structural conditions in the 1992 multi-year arrangement were not enforced; later agreements did not include binding structural conditions. Another set of waivers allowed the Argentines to re-start the EFF after the Mexican crisis in late 1994 and later augment the arrangement. The programs negotiated in 1996, 1998, and 2000 were each completed only through multiple waivers for noncompliance with fiscal targets – in some cases, waivers were issued when the limit on the fiscal deficit was exceeded by wide margins. In 2000 to 2001, augmentations of the standby arrangement brought the size of the Fund’s disbursements to 800 percent of Argentina’s quota.

The Fund’s treatment of the country during the period is best explained by the staff, management, and Executive Board’s trust in the top economic policymakers, who were universally American-educated economists. It is important to note, however, that the episode also provides the best evidence in favor of an explanation rooted in bureaucratic pathologies. Within the IMF there were staff members who expressed skepticism about the prospects for the IMF’s continued support for the neoliberals in Argentina. The skeptical voices came from outside the Western Hemisphere Department; this evidence suggests that the area department had become predisposed to take an optimistic view of the situation.<sup>125</sup> Here the usefulness of the within-unit comparisons becomes apparent. It is hard to fit this argument with the evidence presented in the next episode which shows that the officials from the Western Hemisphere Department were very tough on Argentina in the years between 1981 and 1985. If the area departments are *always* biased in favor of the states in their region, we would not expect to see variation across time.

The comparison between this and the next episode also defuses one of the

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<sup>125</sup> Mussa cites this as a possible factor explaining the Fund’s mistakes in Argentina in the late 1990s (2002: 69-70).

other alternative explanations for the IMF's leniency, which is that the institution did not want to suspend the program during a time of global financial instability and hence trigger a crisis. In this view the Fund was forced to make poor decisions because the alternative – fanning the flames of financial contagion – was worse. But the Fund was willing to suspend programs, as discussed in detail in the next section, at a time when Argentina threatened to become the second major domino to fall in a region-wide chain of sovereign defaults.

The first two episodes belie the view of the IMF as the inflexible enforcer of austerity in low- and middle-income countries. The IMF was more of a sympathetic social worker than a tough cop in the episodes of high neoliberal influence.<sup>126</sup>

### **Episode 3: The Turn toward Economic Nationalism, 1981-85**

I turn in this section of the chapter to the Fund's relationship with Argentina during a period in which neoliberals had a minimal role in Argentine economic policymaking. The differences in the IMF's treatment of the governments during this episode are stark in comparison to the two episodes of high neoliberal influence. In line with the predictions of the theoretical framework developed in chapter 2, and the cross-national evidence presented in chapter 3, the IMF applied a heavy hand during the four years in which interventionist policymakers held sway.

Episode 3 demonstrates the importance of likeminded officials in borrowing governments to the Fund; it also illustrates the limits of two prominent alternative explanations. Argentina fought a war with a powerful member of the institution and became a democracy in the four years after the end of the first episode of neoliberal influence. The story told in this section reveals that neither geopolitics nor domestic institutions had much of an impact on the Fund's decision making.

*Things Fall Apart: The IMF and the End of the Military Regime*

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<sup>126</sup> The “sympathetic social worker” versus “tough cop” imagery is taken from Mussa 2002.

Between 1981, when General Videla and his team of neoliberal policymakers left office, and 1983, when the outgoing military government negotiated a new IMF lending arrangement, Argentina was plunged into the worst economic straits that the country had ever faced. The country's economic orientation was erratic; successive policy teams of varying ideological stripes came and went while economic activity contracted and inflation reached new peaks.

There were no serious negotiations with the Fund over a new loan before 1983. But the internal documents cataloging the IMF's interactions with the different policy teams during the last years of the military regime provide evidence of how the character of the policy team influenced the staff and management's view of the situation.

The first policy team brought in after the removal of Videla was composed by homegrown officials that were sympathetic to interventionist and inward-oriented policies.<sup>127</sup> The IMF viewed the developments in Argentina under the new team with growing concern. IMF staff members traveled to Buenos Aires at the end of August for an evaluation of the state of the economy; after two weeks spent analyzing the new economic team's policy agenda, the head of the mission, Christian Brachet, presented a bleak assessment to the Fund's Managing Director. Of particular interest are the references in Brachet's assessment to divisions among the economic policymakers. Brachet's briefing paper expressed concerns about "the credibility of the economic program as a whole...the mission could but be struck by the little confidence there remains in the economic team. Rumors of impending resignations or shake-ups in a cabinet much divided against itself and where most ministers remain first and

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<sup>127</sup> The new Economy Minister, Lorenzo Sigaut, held a doctoral degree in economics from Universidad de Buenos Aires; head of the Central Bank Julio J. Gomez studied commerce at Hipolito Yrigoyen in the 1940s.

foremost representatives of sectorial [sic] interests continue unabated.”<sup>128</sup>

In late 1981 a new member of military junta, General Leopoldo Galtieri, took control of the government. He swapped economy ministers, bringing Roberto Alemann, a self-described monetarist who had served as Minister of the Economy in 1961-62, into the government.<sup>129</sup> Klaus Veigel observes that “Alemann enjoyed excellent international contacts through his work as ambassador in the United States starting in 1962 and long-standing contacts with the banking community through his advisory function for the Union Bank of Switzerland (UBS).”<sup>130</sup>

The Economy Minister intended to undo all of the policies carried out under the previous team; to that end, he made the highly unusual request to bring an IMF mission back to Buenos Aires for the second Article IV consultation in less than six months.<sup>131</sup> The head of the IMF mission communicated to Jacques de Larosi re (the Fund’s new Managing Director) that “the new authorities were much concerned with conveying to the Executive Board a more encouraging view of Argentina’s economic policies and prospects than that presented in the staff reports prepared in the aftermath of the discussions held with the previous administration.”<sup>132</sup> Brachet’s memo is also a vivid reminder of the challenges facing Alemann: GDP had plunged by 11 and a half percent in the final quarter of 1981; unemployment, adjusted to account for widespread underemployment, was estimated at 12-13 percent; yearly inflation was tracked in December at around 130 percent; international reserves had dwindled to the point that they covered only four months of merchandise imports.

Alemann quickly instituted an austerity program, which seemed to set the table

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<sup>128</sup> Memorandum from Christian Brachet to the Managing Director, “Argentina – Article IV Consultation,” September 23, 1981.

<sup>129</sup> See Alemann’s interview in de Pablo 1977: 9-32.

<sup>130</sup> Veigel 2005: 186.

<sup>131</sup> Interview with Christian Brachet, Washington, DC, March 31, 2009.

<sup>132</sup> Memorandum from Christian Brachet to the Managing Director, “1981 Article IV Consultations with Argentina – Additional Discussions,” February 1, 1982.



for an IMF loan to follow. And if the strict orthodoxy of the Alemann program was not enough to sway the IMF, Galtieri's close relations with the new Reagan administration meant that Argentina had the IMF's most powerful member state on its side.<sup>133</sup>

If Alemann was planning on going to the Fund, his plans were spoiled by the military's surprise invasion of the Islas Malvinas on April 2, 1982. No evidence exists to suggest that the Fund was serious about reaching an agreement on a lending program between the time of Alemann's appointment and the outbreak of hostilities; likewise, there is no evidence to suggest that the United States applied pressure to the IMF in the months before the war to extend support to Galtieri. The evidence that does exist, however, indicates that the Fund's staff members were not fully convinced that Alemann's program was sufficiently credible to merit IMF support. Take, for example, Brachet's report on the Article IV negotiations, which contains the following comment: "while in general favorably impressed with the determination of the authorities, the mission could not shake itself of the impression that the new policies involved a risky, although perhaps unavoidable, political gamble. Their success would depend not only on the authorities' ability to show rapid and measurable progress – against the considerable odds of a very recessed economy – but also on the degree of support they would receive from the President and the armed forces...the army remains much divided and weary of the repeated political and economic failures."<sup>134</sup>

Perhaps more convincing evidence for the argument that the policy team, in spite of Economy Minister Alemann's strong personal connections to the international financial community, had limited credibility in the eyes of the Fund's economists is a

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<sup>133</sup> On the United States' diplomatic relationship with Galtieri on the eve of the Malvinas War, see Feldman 1985; Veigel 2005: 183-87.

<sup>134</sup> Memorandum from Christian Brachet to the Managing Director, "1981 Article IV Consultations with Argentina – Additional Discussions," February 1, 1982.

note from Vito Tanzi of the Fiscal Affairs Department to Brachet. Tanzi writes that “there is a strange déjà vu quality to this report, at least for what concerns the fiscal policy part of it. Somehow I have the feeling of being transported back to 1976 when many of the relevant policy changes commented on in this report were also proposed.”<sup>135</sup>

The IMF’s upper-level officials were certainly aware of the gravity of the economic situation in the first few months of 1982 – William Dale, the Deputy Managing Director, affixed a handwritten note to the copy of Brachet’s Article IV report for the Managing Director that read “a graphic description of an extremely difficult and dynamic situation” – yet there is nothing to suggest that the IMF staff members felt strong pressure to being preparing for a standby arrangement.<sup>136</sup> This stands in contrast to the way in which the Fund rushed in to provide support for the neoliberals of the Diz-Martinez de Hoz period, who took over in a similarly chaotic economic environment.

The defeat by British forces in the South Atlantic had profound political and economic consequences. By the time that the Argentine military capitulated at Port Stanley the economy was in horrendous shape. A large amount of capital fled the country as wealthy Argentines exchanged pesos for dollars to be deposited across the River Plate in Montevideo, Uruguay. The British government had imposed punishing financial and trade sanctions against the country. Argentina’s foreign debt exploded – and to make matters worse the war alienated the private creditors upon whom the regime depended for infusions of capital, lengthened maturities, and voluntary rescheduling.<sup>137</sup>

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<sup>135</sup> Memorandum from Vito Tanzi to Christian Brachet, “Back-to-Office Report on Argentina,” February 5, 1982.

<sup>136</sup> Note from William B. Dale, “Subject: Argentina – Supplement to 1981 Article IV Staff Report,” February 23, 1982.

<sup>137</sup> On the financial consequences of the war, see Kirshner 2007: 182-83; Smith 1989: 246-47.

### *The Negotiations over a New Standby Arrangement*

Officials from the IMF's Western Hemisphere Department returned to Buenos Aires in September 1982.<sup>138</sup> The Argentine policy team was now led by economy minister Jorge Wehbe (a former professor of law at Universidad de Buenos Aires who twice (briefly) served as economy minister) and central bank governor Julio Gonzalez del Solar (an MBA from Harvard (1943) and had been an alternate Executive Director with the Fund in 1956-57).

A new regional dynamic induced by events in Mexico City gave more urgency to the negotiations. The global financial system had been rocked earlier in the month by the Mexican government's announcement that it would cease payment on its foreign debt. Argentina's capacity to continue debt service was questionable even before the Mexican default. The government had accumulated over \$2 billion in arrears during the Malvinas conflict, and the total amount due to creditors at the end of 1982 totaled nearly \$13 billion. Meanwhile, the central bank's reserves had dropped to under \$4 billion.<sup>139</sup> The Mexican announcement was a shock that induced private banks to turn off the lending faucet to Latin America. The prospect of region-wide chain of defaults had to at this point be taken very seriously by the IMF; Argentina was in terrible shape, and Brazil, the second biggest debtor in Latin America, was facing its own troubles. Without a quick infusion of funds from the Fund and the banks it was clear that Argentina would be the next domino to fall. A series of

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<sup>138</sup> The IMF's arrival followed an unsuccessful attempt at stabilization led by two Harvard-trained economists. Immediately following the cessation of hostilities the new head of the military announced plans to hold elections in 18 months, and appointed José Marie Dagnino Pastore (who earned a PhD in economics at Harvard in 1963) as economy minister and Domingo Cavallo as central bank governor. Dagnino Pastore and Cavallo clashed over the strategy for handling the war debt; the plan that Cavallo settled on (the so-called *licuación*) was intended to inflate away a portion of domestic debt. According to the Cavallo's plan, the central bank would, in effect, pump inflation into the system through artificially low interest rates and a one-time inflationary shock to shrink the domestic debt burden (Veigel 2005: 204; Smith 1989: 247). The effort was unsuccessful, and both officials resigned on August 24<sup>th</sup> after just 54 days in office.

<sup>139</sup> Aggarwal 1996: 410-11.

sovereign defaults involving three major debtors would have devastating consequences for global financial activity.

Against this backdrop the IMF mission went to Argentina in early September to start negotiations for a new loan, which would be the first since 1977. Gonzalez del Solar, the central bank governor, wanted to sign a multi-year agreement with the Fund under the Extended Fund Facility for the maximum amount allotted to the country (450 percent of quota, or SDR 3.6 billion).<sup>140</sup> The EFF was the most generous loan offered at the time by the Fund, and was regarded as the most serious endorsement by the Fund's staff and management of a country's reform effort. At the time of the Argentine negotiations, Brazil was also in discussions with the IMF for an EFF; in March 1983 the Fund approved Brazil's loan for the full amount (450 percent of quota).

In light of the unique circumstances, we might expect the IMF to be amenable to the request for extraordinary support for the government's new economic policy team, but the IMF's economists did not look favorably on the request.<sup>141</sup> Christian Brachet, head of the Fund's Argentina mission, reminded del Solar in a telephone conversation that the EFF "would be geared not only to effect a major balance of payments adjustment but also to improve resource allocation with a view to strengthening the productive base."<sup>142</sup> The mission report expressed concerns about the ability of the economic team to carry out a strong set of reforms: "the economic team has significantly more experience of public affairs than its predecessor but the

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<sup>140</sup> Memorandum from Christian Brachet to Carlos Sanson, "Telephone Conversation with Argentina's Central Bank Governor," September 23, 1982.

<sup>141</sup> The IMF's official historian, James Boughton, reports that the Director of the Western Hemisphere Department, Walter Robichek, "was receptive to the idea" of the EFF. Nonetheless, the staff members recommended against it, and Robichek in the end decided not to support the request for the EFF. See Boughton 2001: 332.

<sup>142</sup> Memorandum from Christian Brachet to Carlos Sanson, "Telephone Conversation with Argentina's Central Bank Governor," September 23, 1982.

strength of its mandate remains unclear...The mission thus may find that a clearer political consensus on the need for corrective action – *as well on the nature of such action* – than exists at present will have to be developed within Argentina before a workable program can be framed.”<sup>143</sup>

The negotiations with Wehbe and Gonzalez del Solar over a new standby arrangement were contentious. The IMF’s officials were encouraged by management to take a tough line with the Argentines; in a handwritten note on the September mission briefing, the Managing Director Jacques de Larosière advised the staff to “present the ‘shock therapy’ as a 1<sup>st</sup> best solution.”<sup>144</sup> The IMF staff was authorized by management to negotiate the terms for a 15-month SBA worth SDR 1.5 billion (187% of quota).<sup>145</sup> The negotiations dragged on in to November; at the same time, the Argentines were engaged in furious negotiations with private creditors and the Bank for International Settlements on the terms for bridge loans worth \$1.1 billion and \$750 million, respectively.<sup>146</sup> The relationship between the Fund and Argentine officials – who felt that the IMF was being excessively stringent in the face of a near complete economic collapse and amidst rising political tensions in the run-up to the elections scheduled for October 1983 – became strained. In a memorandum for the Executive Directors of the G5 countries, the Director of the Western Hemisphere Department reported that “negotiations on Argentina from which he and the staff had returned the previous day, had been very difficult...no one on the Argentine side had tried to take an integrated view of the problem areas of the economy, nor quantify the magnitude of

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<sup>143</sup> Western Hemisphere Department, “Argentina – Briefing for Mission (Standby Arrangement),” September 22, 1982. Italics are added for emphasis.

<sup>144</sup> De Larosière’s handwriting, while somewhat messy, is legible. Note from William B. Dale to the Managing Director, “Study: Argentina – Briefing for Mission (Standby Arrangement),” September 22, 1983.

<sup>145</sup> Memorandum from José Braz to Walter Robichek, “Negotiations with Argentina,” October 7, 1982.

<sup>146</sup> Boughton 2001: 332-33.

the problems.”<sup>147</sup>

In November Jacques de Larosi re unveiled the new strategy that the Fund would take to deal with the Latin crisis. The commercial banks wanted debtor countries to sign IMF agreements to lower the risk of default – but in exchange for IMF support, the Managing Director would force the banks to grant new money to fill the portion of the “financing gap” not covered by the IMF’s loan.<sup>148</sup> This was partly a result of practical considerations: the Fund’s resources were simply not large enough to close the financing gaps facing most prospective borrowers in 1982-83. To organize the 325 commercial banks that were involved in Argentina, the largest (and most exposed) banks formed an Advisory Committee headed by the legendary Citibank chairman William Rhodes.<sup>149</sup> Subsequent negotiations followed a triangular pattern: between the IMF and Argentina, Argentina and the banks, and the banks and the IMF. The outcome of the pressure from the IMF was the approval of a \$1.5 billion increase in private bank exposure to accompany the SBA.<sup>150</sup>

The remaining obstacle to the agreement was the balance of payments target, which the IMF limited to a deficit of no more the \$500 million, and which the Argentines felt was too strict.<sup>151</sup> Once Wehbe and del Solar finally acceded to the balance of payments target, the Letter of Intent and Memorandum of Understanding containing the details of the program were signed and submitted to the Executive Board for approval.

The Board discussed the staff’s proposal on January 24, 1983. The 15 month

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<sup>147</sup> Staff memorandum for G5 Executive Directors, “Subject: Argentina Briefing for G5 EDs,” November 1, 1982.

<sup>148</sup> See, for example, Boughton 2001: 333-34.

<sup>149</sup> Aggarwal 1996: 411-12; Boughton 2001: 334.

<sup>150</sup> Boughton 2001: 333.

<sup>151</sup> The current account deficit in 1982 was \$950 million. The debate between the two sides revolved around how to count the \$1.5 billion bridge loan from the banks; the IMF wanted to exclude it from the ledger, while the Argentines wanted it to count toward achieving payments equilibrium. Memorandum from Eduardo Wiesner to the Managing Director, “Argentina – Standby Documentation,” December 16, 1982.

program was much more extensive than the previous agreements signed during the Diz-Martinez de Hoz years. In addition to the inclusion of the balance of payments target as a binding condition, the SBA included several structural performance criteria related to trade and payments.<sup>152</sup> Some of the Executive Directors expressed concerns about the toughness of the program; the Belgian Executive Director, Jacques de Groote, stated that the proposed program “could impose such a heavy burden on the government as to exclude the possibility of complete observance.”<sup>153</sup> The Board members’ uncertainty about the prospects for the program notwithstanding, the program was approved and the first SDR 300 million was disbursed in May.

*Britain’s Acquiescence with the Loan for Argentina*

The realist perspective on the politics of the Fund’s lending behavior highlights the ability of powerful member states to use the IMF to reward friends and to punish enemies.<sup>154</sup> One of the more remarkable aspects of the 1983-84 program, then, is its very existence: it was approved while Argentina retained discriminatory financial measures against a country – Britain – with great influence within the institution.

During the Malvinas War the Argentine government instituted Law 22591 (“La Indisponibilidad de Bienes Británicos”) which froze British assets in the country. British holders of Argentine bonds were prevented from selling the bonds and remitting the proceeds back to London. The law constituted an unapproved violation of the IMF’s Articles of Agreement, which prevents members from applying restrictions against other member states. This clear violation of IMF statutes should

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<sup>152</sup> The 1983 agreement included 15 separate performance criteria. The agreement required the elimination of (1) the system of special rebates for exports, (2) the foreign financing requirements for imports, and (3) external payments arrears, as well as a schedule for the elimination of the remaining multiple currency practices and restrictions on current international transactions. EBS/83/8, “Argentina – Staff Report for the 1982 Article IV Consultation and Request for Standby Arrangement,” January 10, 1983.

<sup>153</sup> Minutes of the Executive Board Meeting, EBM/83/17, January 24, 1983; also cited in Boughton 2001: 334.

<sup>154</sup> For example, Stone, 2002, 2004, 2008; Thacker, 1999.

have disqualified Argentina from being able to make a purchase from the Fund. To get around this problem, the IMF's staff members from the Western Hemisphere Department were able to insert a condition that required Argentina to "reach understandings with the Fund on a precise schedule for the elimination by December 31, 1983 of all restrictions on current payments and transfers."<sup>155</sup> The British Executive Director expressed his country's desire for the Argentines to end the discriminatory practices as quickly as possible, but was apparently satisfied with the Argentine authorities' promises, and threw his support behind the program.

The lack of British resistance to the proposed loan is all the more surprising considering the opposition to the Argentine loan within the British government. For example, in parliamentary debate Labour Party member Dale Campbell-Savours contended that the Fund had been far too lenient with Argentina:

I submit that the IMF has the power to impose conditions but for political reasons lack the will to do so. The clearest and nearest example to the hearts of the British people has been the notable case of Argentina and its attempts to use precious resources, which have been made available through the banking system, to fund its additional purchases of arms supplies. We all know that inevitably they will be used to shoot at our people in the south Atlantic...The question for the House to ask is whether the IMF went far enough in the correcting measures that it was required to demand of the Argentine junta. I believe that it did not.<sup>156</sup>

Campbell-Savours' sentiments were shared by many other MPs from both the Labour and Conservative parties. The fact that the IMF made the 1983 loan against the interests of powerful member suggests the limits of realist-oriented explanations for variation in the IMF's treatment of borrowers.

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<sup>155</sup> Minutes of the Executive Board Meeting, EBM/83/17, January 24, 1983.

<sup>156</sup> House of Commons, *International Monetary Arrangements*, July 11, 1983, pg. 369.



The IMF had moved the date by which Argentina was to remove restrictions on financial transactions involving British entities to the end of July once it was clear that restrictions would be retained through the end of May. Throughout May and June there were a series of complaints issued by Nigel Wicks, the British Executive Director, about the persistent discriminatory practices by the Argentine government.<sup>157</sup> Thanks to the modification of the terms of the agreement, in early June Argentina was able to draw the next \$320 million from the SBA. As the end of July approached it became clear that Wehbe and Gonzalez del Solar's efforts to deal with the restrictions issue were stymied by political opposition in the military government. The private banks' consortium, the Advisory Committee for Argentina, warned the Argentine officials that "the Committee is deeply concerned to learn that Argentina at present would be denied access to IMF resources under the standby arrangement as a result of Argentina's continuing discrimination in respect of current payments to an IMF member country."<sup>158</sup> The Argentines were able to obtain another extension of the deadline for the removal of discriminatory restrictions against British entities, this time pushing the date back to mid-August.<sup>159</sup>

#### *Performance under the 1983 Arrangement*

When the IMF mission visited Argentina in late August to determine whether the country could draw the next tranche of the SBA, it was clear that the program had finally gone off the rails. The British issue remained unresolved, but even more concerning from the perspective of the members of the IMF mission was the fact that the country was out of compliance with multiple binding conditions. The central bank

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<sup>157</sup> For example, Wicks twice brought up the case of an unnamed British pharmaceutical company operating in Argentina that was unable to get import licenses to obtain goods of British origin. Memorandum from Nigel Wicks to Eduardo Wiesner, "Argentina – Discriminatory Restrictions against the United Kingdom," May 4, 1983.

<sup>158</sup> Telex from the Working Committee for Argentina to Wehbe and Gonzalez del Solar, August 3, 1983.

<sup>159</sup> Boughton 2001: 386.

governor flew to Washington DC in early September to plead the government's case in the hope of getting a waiver from the Fund that would allow Argentina to obtain the much-needed funding. The Managing Director rejected Gonzalez del Solar's appeal, and the program was suspended.<sup>160</sup> When Gonzalez del Solar returned home empty-handed on October 3<sup>rd</sup>, he was promptly jailed by a Patagonian judge for violating national sovereignty by helping to renegotiate the \$220 million debt of the national airline, Aerolineas Argentinas, with several New York-based banks.<sup>161</sup> The confusion over the status of the central bank governor (he was released after a few days) coupled with labor unrest and uncertainty over the outcome of the election scheduled for October 30 led private banks to postpone the disbursement of a \$300 million tranche of the bridge loan.

Argentina teetered on the precipice in the remaining months of 1983. Pressure on the IMF from the banks to release the final tranche of the SBA proved ineffectual; Argentina's only lifeline was a series of postponements of the payments owed on the banks' bridge loan. The relationship between the Fund and Argentine authorities had degraded to the point that the Assistant Director of the Western Hemisphere Department, Christian Brachet, reported "an undisguised sense of bitterness toward the Fund."<sup>162</sup> In December the IMF was given a chance to renew the relationship with a new set of policymakers in a democratic Argentina.

#### *The Democratic Transition and Turn toward Economic Nationalism*

A new chapter in the IMF's relationship with Argentina began on December 10, 1983 when Raul Alfonsin was inaugurated as the new President of Argentina.

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<sup>160</sup> Boughton 2001: 386-87.

<sup>161</sup> Nathaniel C. Nash, "Argentine Intrigue Surrounds a Banker," *The New York Times*, October 9, 1983: pg. 14; *The Economist*, "Why Some Argentines Want to Leave the Solar System," pg. 83; Veigel 2005: 251.

<sup>162</sup> Memorandum from Christian Brachet to the Managing Director, "Argentina – Meeting with Bank Working Committee," November 3, 1983.

Alfonsín was the unexpected victor of the first free elections in Argentina in a decade. He was the leader of a political party, the *Union Civica Radical* (Radical Party) that had not governed since the 1960s. Moreover, the *Justicialista* (Peronist) party had won every fair, contested election since 1945.<sup>163</sup>

The negotiations led by Alfonsín's new economic team illustrate the limits of the domestic institutional explanation for IMF lending. There was no qualitative shift in IMF treatment of the country. Instead, the resistance of the new policy team to neoliberal ideas made for an extraordinarily contentious set of policy discussions that stretched for almost a year.

Alfonsín's new economic policymaking team consisted of Bernardo Grinspun as economy minister and Enrique García Vázquez as central bank governor. Grinspun had served as trade secretary in the brief Radical administration in the 1960s; he was described in the American and British press as "a well-respected private banker who helped in Argentina's debt negotiations in 1975" as well as a figure that was "no stranger to banking circles in the United States and Europe."<sup>164</sup> Both Grinspun and the central bank governor were indigenously trained; Grinspun had become acquainted with Alfonsín while they were enrolled at Universidad de Buenos Aires. While García Vázquez held economic beliefs that were somewhat closer to the Fund's neoliberal ideas, Grinspun was an interventionist and a nationalist. Grinspun believed that his team's economic policies should aim at restoring growth and raising real wages after several years of declining per capita wealth.<sup>165</sup>

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<sup>163</sup> The Peronist Party was outlawed at the time of the Radicals' victory in 1966; at the time, the Radical Party candidate won with only 20-25 percent of the vote, since large numbers of Peronist supporters cast blank ballots. Erro 1994: 17.

<sup>164</sup> Grinspun had been Argentina's representative to the Paris Club, the informal group of official creditors that meet to reschedule debt with developing countries. The first quote is taken from James L. Rowe, Jr., "Leaders Face Troubled Economy: The New Order in Argentina," *The Washington Post*, November 27, 1983, pg. H6; the second quote is from *The Economist*, "Argentine Debt: Radical Rethink," November 5, 1983, pg. 87.

<sup>165</sup> On the new economic team's economic beliefs, see Erro 1994: 132; Manzetti 1991: 141; Veigel 2005: 259, 261-62.

The IMF was not enamored with the new policy team. A mission had been sent to Argentina two days after the inauguration of Alfonsín to lay the groundwork for a new agreement.<sup>166</sup> The mission reported “an atmosphere of conflict” between officials in the Economy Ministry and the central bank.<sup>167</sup> Intellectual divisions within the government were also notable between Grinspun and his advisors and a group of U.S.-trained technocrats in the lower rungs of the planning ministry, which was led by Juan V. Sourrouille.<sup>168</sup> The IMF viewed Grinspun in particular with deep suspicion; one former top IMF official described him as a “walking disaster.”<sup>169</sup> The gap in economic beliefs between Grinspun and García Vázquez on the one hand, and the IMF on the other, would generate the toughest, most contentious negotiations in the Fund-Argentine relationship.

In early 1984 there was an even stronger imperative on the IMF’s part to quickly hammer out the details on a loan agreement than in previous years. Economic deterioration in the months prior to the presidential election meant that Argentina was “essentially a country without a currency.”<sup>170</sup> The prospect of a default on the \$41 billion foreign debt – nearly half of which fell due in 1984 – continued to pose a threat to the international financial system. There was pressure on the Fund to extend support to the Alfonsín government for political reasons, as well. A banker observed at the time that “Grinspun will be asking the IMF not to be too harsh so as not to jeopardize

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<sup>166</sup> Manzetti (1991: 141) incorrectly reports that “Grinspun was opposed to a standby.” In fact, Grinspun had secretly met with the Fund preceding the elections in September 1983 (Veigel 2005: 253). The presence of the Fund’s staff just two days after Alfonsín took office, and the visit by García Vázquez to IMF headquarters on December 20 indicates an urgency to negotiate.

<sup>167</sup> Memorandum from K. Burke Dillon to the Managing Director, “Mission to Argentina – December 12-16, 1983,” December 19, 1983.

<sup>168</sup> Veigel 2005: 261. Sourrouille’s lower-level advisors included Adolfo Canitrot (Stanford PhD), Mario Brodersohn (Harvard), and José Luis Machinea (Minnesota). But the Economy Minister and (to a lesser extent) the central bank governor were in charge of the stabilization effort in 1984, and the neoliberals in the planning ministry would have to wait several years to gain control of Argentine economic policymaking.

<sup>169</sup> Interview with Desmond Lachman, former Assistant Director of the Western Hemisphere Department (1984-1990), Washington, DC, April 6, 2008.

<sup>170</sup> Boughton 2001: 388.

the experiment in democracy. He'll probably get a sympathetic ear.”<sup>171</sup> The United States provided vocal support for Alfonsín's new democratic regime, as did several Western European governments.

### *The Negotiations Begin*

The IMF mission to negotiate a new standby arrangement began at the end of January 1984. The mission arrived just after Alfonsín announced an economic agenda that included several seemingly incompatible goals: wage increases of 6-8 percent and a five percent increase in output coupled with a reduction in inflation and the fiscal deficit.<sup>172</sup> The first issue that confronted the IMF team, led by Stanford-trained Eduardo Wiesner, was the size of the IMF's support for the Grinspun-García Vasquez team. Argentina faced a large financing gap in 1984, and the mission and the Argentine authorities agreed that support should amount to 125 percent of quota.<sup>173</sup> The Fund's upper-level management was uncomfortable with the size of the proposed loan. William Dale, the second in command at the Fund, expressed his doubts in a handwritten note for the Managing Director: “I am doubtful that Argentina ‘deserves’ 125% of quota...I think I would opt for 102% at this stage, reserving discussion of 125% for later.”<sup>174</sup> The mission left Argentina in February without agreement with the Argentine officials on the content of a stabilization program for 1984.

In March the situation worsened. The Fund's economists and Grinspun were at an impasse over the level of the budget deficit to be included in a standby arrangement. At the end of the month Argentina was facing \$500 million in interest

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<sup>171</sup> “IMF Girds to Meet Bids for Aid,” *The New York Times*, January 2, 1984: pg. 39.

<sup>172</sup> Erro 1994: 133; Manzetti 1991: 141-42.

<sup>173</sup> The mission reported that “Argentina has, at present, an especially large need for financing from the Fund given the high level of external payment arrears, the low level of reserves, and limited access to spontaneous sources of financing.” Western Hemisphere Department, “Argentina – Mission Briefing,” January 30, 1984.

<sup>174</sup> Note from William B. Dale to the Managing Director, “Subject: Argentina Briefing,” January 31, 1984.

payments, and the authorities began to drop hints that would not be able (or willing) to make the payment.<sup>175</sup> Grinspun told the banks' Advisory Committee that the country was on the cusp of negotiating a Letter of Intent with the Fund, but in reality Grinspun's team had just started drafting their own program without consultation with IMF economists. To try to break the deadlock, Alfonsín sent the famed structuralist economist Raul Prebisch, then in his eighties, to IMF headquarters on March 23 for eight days of talks with staff and management to try to wrest some concessions from the Fund.<sup>176</sup> The IMF insisted that the budget deficit could be no higher than 6 percent; the Argentine authorities did not want to set a target below 9 percent (at the time, the fiscal deficit was around 14 percent of GDP).<sup>177</sup> On March 31 Argentina avoided a default only through a last-minute \$300 million loan put together by Mexico, Venezuela, Brazil, and Colombia; the remaining amount came from reserves and a \$100 million loan from the banks' Advisory Committee. The consequences of a missed payment would have been severe for highly exposed American banks: the March 31 deadline marked the date at which the banks were to report first quarter earnings.<sup>178</sup>

The negotiations continued into the summer, with several breakdowns along the way. In a meeting with U.S. financial representatives, including Chairman of the Federal Reserve Paul Volcker, the IMF's Joaquín Ferrán expressed concern that "the economic team did not have the sufficient power necessary to take the decisions necessary to bring the situation under control." Responding to a question from Volcker about parallels between the Alfonsín administration and the Radical government's

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<sup>175</sup> Marlise Simons, "Argentine Plan Raising Doubts on Aid by Banks," *The New York Times*, March 24, 1984, pg. 31.

<sup>176</sup> Boughton 2001: 389.

<sup>177</sup> Minutes of Meeting with Management to Discuss Argentina, March 21, 1984.

<sup>178</sup> Henry Giniger and Milt Freudenheim, "Latins Help End Argentine Crisis," *The New York Times*, pg. 2; Boughton 2001: 390-91; Stiles 1987: 66.

experience in the mid-1960s, top Fund official Sterie Beza expressed the belief that the IMF should hold a tough line: in the previous Radical administration, “people like Grinspun and Garcia Vasquez gradually had come around.”<sup>179</sup>

Unable to come to an agreement on the fiscal question, Grinspun decided to pursue a new gambit. On June 11 he and Garcia Vasquez submitted their own Letter of Intent to the Fund’s Executive Board. Grinspun’s action was not necessarily a surprise to the Fund – in May he threatened to unilaterally submit a proposal if the IMF’s mission did not relent on the fiscal issue – but it was a serious breach of the IMF’s protocols.<sup>180</sup> A statement from a key presidential aide at the time reflected the deep ideational divide between the Fund and the Argentines: “There was a fundamental difference of focus. The IMF’s formulas were recessionary, and we won’t accept that.”<sup>181</sup>

The timing of the Argentines’ move was deliberate: June 15 marked another deadline for interest payments due. Grinspun and Argentina’s ambassador to the U.S., in a telephone call to Jacques de Larosi re and other top management, emphasized the political constraints under which the government was operating, arguing that “the Managing Director had to understand the extremely charged political atmosphere in Argentina and to see the letter in its proper context.”<sup>182</sup> The IMF was unmoved; in Boughton’s words, “to the Managing Director there was simply no question of the Fund giving a positive signal to creditors until a credible policy program was in place.”<sup>183</sup>

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<sup>179</sup> Minutes of the Argentine Mission’s Report to Management and US Representatives, March 7, 1984. Grinspun and Garcia Vasquez emphasized the constraints that they operated under in their unapproved Letter of Intent: “This stance of the Argentine government is motivated by strictly realistic considerations. It takes into account the emergent character of Argentine democracy...”

<sup>180</sup> Memorandum from Eduardo Wiesner to the Managing Director, “Argentina,” May 9, 1984.

<sup>181</sup> Edward Schumacher, “Argentina Bypassing IMF Staff,” *The New York Times*, June 11, 1984, section D, pg. 1.

<sup>182</sup> Memorandum for files, “Argentina,” June 13, 1984.

<sup>183</sup> Boughton 2001: 392.

### *An Accord is Reached*

The disagreements between the Argentines and the Fund prevented an agreement from being reached through the rest of the summer and into the fall, despite several missions to Argentina and a personal visit from Grinspun to Washington DC to meet with the Managing Director in early August. Pessimism about the Argentines within the Fund turned to despair. The members of the failed IMF mission in late June concluded that any plans for future discussions with the Grinspun-Garcia Vasquez team about the loan may have to be scrapped: “there are serious questions whether such discussions would have a reasonable chance of success, unless the government is willing to undertake substantive policy changes that so far it has refused to entertain.”<sup>184</sup> Argentina nearly missed another interest payment on August 15. At this point inflation was running at nearly 20 percent per month. Finally, in late September – 9 months after the first mission to Argentina – a breakthrough occurred. The Argentines’ capitulated and accepted a budget deficit target of 5.5 percent for 1985; in exchange, the Fund’s staff members decided to accept the persistence of wage indexation.<sup>185</sup>

The rest of the year was devoted to finding a way to close the huge financing gap that Argentina faced. With interest payments and arrears projected to amount to \$8 billion, the gap between the Argentine resources and payments could not be filled by the IMF alone.<sup>186</sup> After furious efforts to secure financing by the Managing Director and his staff, the Letter of Intent and Memorandum of Understanding were presented to the Executive Board on December 28, 1984 – a full year after negotiations on a lending program for Argentina were initiated – and, despite a

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<sup>184</sup> Memorandum from Eduardo Wiesner and Joaquin Ferrán, “Mission to Argentina – May 6 to June 13, 1984,” June 22, 1984.

<sup>185</sup> Boughton 2001: 393.

<sup>186</sup> Boughton 2001: 394.



number of concerns expressed by individual Executive Directors about the prospects for the program, the Board supported the staff's proposed program for Argentina.<sup>187</sup> The content of the 15- month program was similar to the 1983 agreement (though it included several additional performance criteria) and the size was actually smaller than the previous SBA in terms of proportion of Argentina's quota (127.5 percent versus 187 percent in the 1983 SBA).<sup>188</sup> The experience of the Alfonsín administration with the IMF in 1984 bears out Veigel's claim that "the transition to democracy did not significantly strengthen Argentina's bargaining power vis-à-vis international creditors."<sup>189</sup>

The new IMF program got off to a very rocky start. The Argentines had made one purchase for SDR 236.5 million following the Board approval at the end of December. In early February the IMF mission arrived in Buenos Aires to check on the government's performance with respect to the performance criteria for the first quarter. The news was not good: Argentina was out of compliance with multiple binding conditions. On February 18, 1985 Joaquín Ferrán notified Economy Minister Grinspun and the central bank governor García Vázquez that the IMF staff would not recommend a waiver to allow the program to continue.<sup>190</sup> When the Argentine officials delivered the message from the IMF to President Alfonsín about the suspension of the program, Alfonsín requested their immediate resignations.<sup>191</sup> A different policy team – which included a role for American-trained economists – would reverse course, implementing a new and drastic approach to stabilizing the Argentine economy after 1985.

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<sup>187</sup> Boughton writes, "the Board approved the stand-by arrangement, but with somewhat less enthusiasm than was its custom" (2001: 397).

<sup>188</sup> EBS/84/251, "Argentina – Request for Standby Arrangement," December 3, 1984.

<sup>189</sup> Veigel 2005: 281.

<sup>190</sup> Boughton 2001: 398.

<sup>191</sup> Grinspun rejoined the government – albeit in a much less influential position – as planning minister three weeks after his removal by Alfonsín.

### *Summary of the Period of Low Neoliberal Influence (1981-85)*

The contentiousness observed in episode 3 provides a stark contrast with cordial relations and lenient treatment by the Fund in the two episodes of high neoliberal influence. Two agreements were signed during this period. The pattern for both agreements was similar: protracted, difficult negotiations produced loans that were more extensive in terms of conditionality and less generous than preferred by the Argentine authorities. Both agreements were suspended without consideration of waivers shortly after approval by the Executive Board.

The IMF's treatment of the country between 1981 and 1985 fits with the expectations from my theoretical framework. The episode also demonstrates the limits of the alternative explanations. The episode is a most likely case for geopolitics: Argentina fought a war with an important member state just months before starting negotiations over a new standby arrangement. Britain did not try to block the loan, nor was it able to convince the Fund to rigorously enforce the provision in the loan forcing the Argentines to end their discriminatory exchange practices. Likewise, the transition to democracy in 1983 did not generate a distinct pattern of relations that are not predicted by ideational argument. The IMF was nonplussed by appeals from outside countries or from Argentine officials to take an easier line in support of a fragile new democracy in the southern cone.

One alternative explanation that does find some support relates to bureaucratic self-interest. In the wake of the Mexican debt crisis, the Fund's resources were strained. Perhaps the institution's willingness to suspend the loans and relative stinginess reflected concerns about overextension and the possibility that the Argentines would fall into arrears to the Fund. But the comparison between this episode and the post-1991 period is instructive: IMF funds were in great demand in the late 1990s, yet the institution was willing to raise its exposure in the country to

record levels by 2000.

#### **Episode 4: Neoliberals in a Divided Government, 1985-89**

The fourth episode is the most difficult to characterize, both in terms of the degree of neoliberal influence and the IMF's treatment. American-trained economists took important positions in government after 1985, but their influence over policymaking was constrained in ways that differentiate the period from the other episodes. The Fund initially greeted the emergence of likeminded authorities in the Alfonsín government with enthusiasm; later, the Fund's patience wore thin as the government was unable to control inflation. Even though it is the most indeterminate case for my argument, the evidence strongly suggests that the presence of neoliberals in Argentina during this time period continued to serve as a signal to the IMF.

##### *The Return of Neoliberal Influence to Argentine Policymaking*

In February 1985 there was little hope on the part of the IMF that the Radical-led Argentine government could right the ship. The negotiations over the standby arrangement signed in December 1984 were torturous. Despite the country's demonstrable need and the systemic risks of failing to deliver the government from the brink of default, the deep ideational divide between the Argentines and the Fund's staff and management was a major stumbling block. The IMF seemed unwilling to expend resources on a government that it did not trust. Once the agreement was reached, the Fund suspended it after just one month.

Argentina was in deep trouble, and President Alfonsín needed to take action to restore the relationship with the Fund – but he was keenly aware that elements of his party were unfriendly to neoliberal ideas. His new economic policy team served two audiences. The new head of the central bank, Juan J. Alfredo Concepción, was a Radical Party stalwart and resembled Bernardo Grinspun, the recently removed

nationalist economy minister, in terms of his economic views.<sup>192</sup>

The new head of the Ministry of the Economy, Juan Vital Sourrouille, was intellectually much closer to the IMF than his predecessor, and had no ties to the Radicals. His primary training in economics was at Universidad de Buenos Aires, but he had been exposed to American economic thinking through a year he spent as a visiting scholar at Harvard, and he had formed international contacts as an official with the UN's Economic Commission for Latin America (ECLA). The new finance minister's appointment was greeted with cautious optimism at the IMF and among the broader financial community.<sup>193</sup>

Most importantly, Sourrouille elevated a group of politically unaffiliated, American-trained economists to positions of influence in the government. This core group would be integral to the design of a new strategy for managing the country's economic problems and would help reshape the country's rocky relationship with the Fund. Mario Brodersohn (PhD from Harvard, 1966) became the finance secretary, the Economy Minister's second-in-command; Adolfo Canitrot (PhD from Stanford, 1966) and José Luis Machinea (PhD from the University of Minnesota, 1983) became undersecretaries in the Ministry of the Economy.<sup>194</sup>

#### *The Element of Surprise: The IMF and Plan Austral*

The IMF began negotiations with the new team to restart the suspended SBA in March. At the same time, Sourrouille and core advisors were working secretly to

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<sup>192</sup> Kaufman 1990: 89.

<sup>193</sup> The *New York Times* reported that Sourrouille "appeared to be less abrasive than his predecessor, Bernardo Grinspun, and more committed to an economic discipline that bankers say is needed in Argentina ... many [bankers] said that the 44-year-old Mr. Sourrouille... had pushed for export-oriented policies and an assault on inflation. These economic views generally are shared by Argentina's approximately 320 creditor banks and by the International Monetary Fund." Nicholas Kristoff, "Bankers Warily Greet Shakeup in Argentina," *The New York Times*, February 20, 1985: pg. 1. See also Nancy H. Kreisler, "Two Top Argentine Officials Resign; Played Key Roles in Debt Debate," *The New York Times*, February 19, 1985: pg. 1.

<sup>194</sup> Lydia Chavez, "Argentina's Bold Rescue Plan," *The New York Times*, June 25, 1985: pg. 1; Wynia 1992: 179.

devise a plan to wring inflation – which hit 1,800 percent in the second quarter of 1985 – out of the Argentine economy for good. On April 15 Jacques de Larosière convened a meeting with Sourrouille, his advisors Brodersohn and Machinea, senior Fund management, and the head of the U.S. Federal Reserve and the assistant Secretary of the U.S. Treasury, Paul Volcker and David Mulford. As described by the IMF's official historian James Boughton, over the course of four hours the Argentine policymakers sketched a rough outline of an unorthodox shock program to be implemented in June. The Managing Director and the U.S. officials offered their support for the program, and the IMF staff members began an unusual set of side-by-side negotiations: one set was a public feint that focused on hammering out a typical IMF adjustment program; the other, secret set of discussions concerned the details of the June anti-inflation shock treatment for the Argentine economy.<sup>195</sup>

On June 11, to the relief of the country's creditors, the Argentine authorities signed a new, more lenient Letter of Intent to restart the suspended standby arrangement.<sup>196</sup> Few outside of Sourrouille's inner circle and IMF were prepared for what followed three days later. On Friday the 14<sup>th</sup> of June the authorities implemented the so-called *Plan Austral*. The shock anti-inflation program included a wage freeze and the introduction of a new currency unit, the austral, to replace the badly devalued peso.<sup>197</sup> The shock treatment in its first months had the intended effect: monthly

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<sup>195</sup> Boughton 2001: 399. At the time it was widely misreported that the IMF was blindsided by the announcement of the shock program in June (see, for example, Stiles 1987: 77; Manzetti 1991: 145); the recent release of archival materials confirmed that the IMF was aware of and involved in the planning for the heterodox approach taken by the Sourrouille team.

<sup>196</sup> The need for secrecy about the Argentines' program extended even to confidential IMF documents for fear that a leaked communiqué might spoil the government's plans. For example, a terse memo from Joaquín Ferrán to the Fund's top management about the conclusion of negotiations made no reference to the imminent shock stabilization plan. Memorandum from Joaquín Ferrán to the Managing Director, "Argentina – Revised Stand-By Program," June 10, 1985.

<sup>197</sup> The plan included four main components: (1) a freeze on wages and prices; (2) a major reduction in the fiscal deficit (to just 2.5 percent of GDP) and an end to monetary emission (the practice of financing the government deficit through the printing press); (3) the introduction of the austral, which was set equal to 1,000 pesos and was pegged at the rate of 1 austral = \$1.25 (implying a devaluation of around 35 percent); (4) a conversion table for existing contracts, the *desagio*, was designed to deal with the

inflation fell to from 30 percent to 6 percent in July and lower still in August and September.

In the wake of the implementation of the Austral Plan, an IMF mission returned to Argentina to try to restart the standby agreement that had been approved the previous December. Privately, the Fund's top officials expressed a large degree of uncertainty about the likely outcome of the stabilization effort.<sup>198</sup> But after the experience with the policy team in the first years of the Alfonsín presidency, the staff and management of the IMF showed great faith in the ability of Sourrouille's team of neoliberals to carry out the renewed program. On August 9 the Executive Board endorsed the program with considerable enthusiasm; Richard Erb, the acting Chairman of the Board meeting, summed up the opinion in the room:

I recall that at the time of the initial discussion of the program in December, the Managing Director made a statement for the record reflecting the deep concerns and questions that Directors had about policy plans and the economic program of the Argentine authorities. I believe that it is fair to say, without creating a sense of unwarranted euphoria, that the spirit and the tone of the discussion today were quite different...Directors have qualified the program as bold, courageous, and dramatic.<sup>199</sup>

The Argentine policymakers were able to draw on the heavily delayed \$245 million disbursement immediately. Another IMF mission in late August gave the authorities good marks for implementing the standby arrangement, freeing up another \$245 million in funds. Argentina's debt problem was eased by an additional \$4.2 billion in loans approved by the private banks' consortium and by the rescheduling of

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anticipated sharp drop in monthly inflation. On the details of the Austral Plan, see Epstein 1987: 1000; Heymann 1991: 104-30; Kiguel 1991.

<sup>198</sup> See, for example, comments from Veigel's interviews with Adolfo Canitrot and Jacques de Larosière in *Governed by Emergency*, pg. 297.

<sup>199</sup> Minutes of the Executive Board meeting, EBM/85/125, August 9, 1985. Erb is also quoted in 2001: 400-01.

maturities due from April 1982.<sup>200</sup>

The success of the Austral Plan was dramatic but short-lived. In the first three months following the shock program, inflation declined precipitously and the fiscal balance improved thanks to improved revenue collection. The inflation-fighting success of Sourrouille team is clearly shown in Figure 5.3.<sup>201</sup>

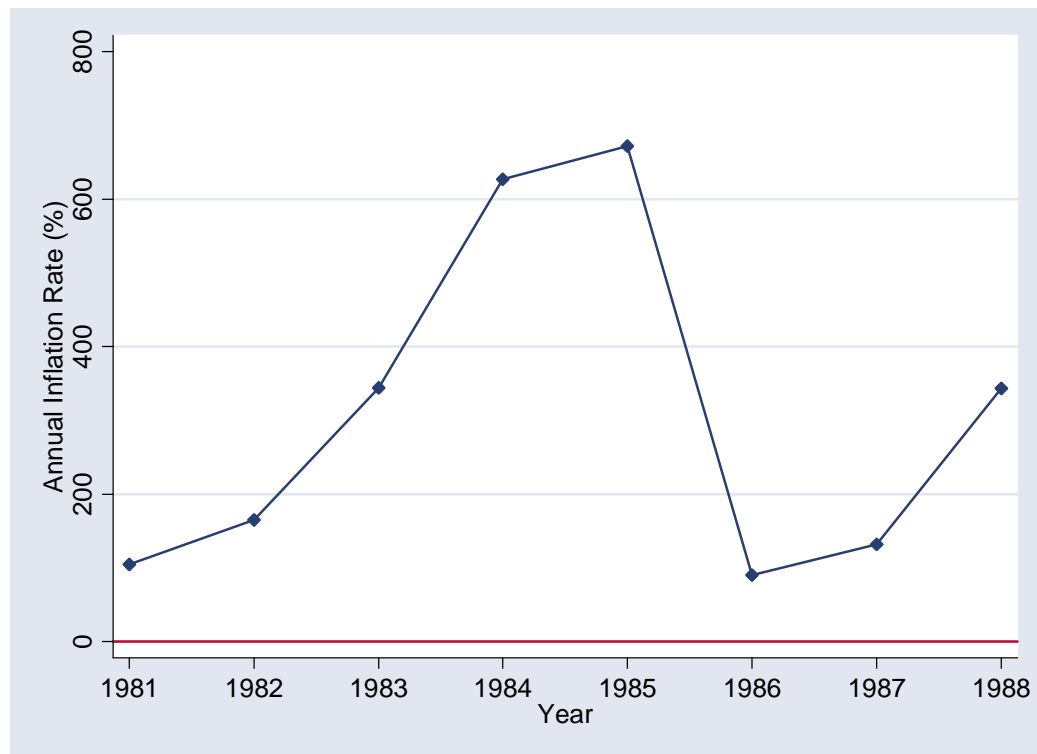


Figure 5.3 Annual Percent Change in Consumer Price Inflation, 1981-88

Pressure against the Fund-supported stabilization effort mounted in late 1985 and early 1986. The central labor organization, *Confederación General del Trabajo* (CGT), was opposed to the program and, because of its historic affiliation with the Peronist party, was skeptical of Alfonsín and the Radicals' agenda. Conflict within the economic policymaking team also began to undermine the stabilization effort. The central bank, led by Radical Party stalwart Juan J. Alfredo Concepción, contravened

<sup>200</sup> IMF Western Hemisphere Department staff memorandum SM/86/35, "Argentina – Recent Economic Developments," February 25, 1986.

<sup>201</sup> Inflation data are taken from the World Bank's *World Development Indicators* database.

Sourrouille and his advisors' preferences by loosening monetary policy through generous rediscounting to troubled banks and state-owned enterprises in politically influential provinces.<sup>202</sup> The fiscal situation, while significantly better at the end of 1985 than in the period before the Austral Plan's implementation, remained fragile. Much of the improvement was based on unsustainable short-term conditions; in the absence of "a major fiscal reform aimed at improving government revenues on a permanent basis," the prospects for the stabilization effort were doubtful.<sup>203</sup> Political opposition from the Peronists and from within the Radical Party meant that a sustainable fiscal adjustment was not forthcoming.

In late November 1985 an IMF mission returned to Argentina to assess the government's adherence to the conditions in the renewed standby arrangement. The mission found that the Argentine authorities' stabilization effort had veered off course, and the IMF suspended the program in December.<sup>204</sup>

The IMF was not yet prepared to cut the Sourrouille team loose. In February 1986 the Argentine authorities visited IMF headquarters to convince the staff and management to waive the missed conditions in order to release the next tranche of the SBA and to extend the program (which was set to expire in March) through May. On March 10 the Executive Board considered the proposed modifications to the SBA. Fernando Nebbia, the Argentine Executive Director making the case to the Board on behalf of the government, reported that "although some of the performance criteria contained in the program were not met, my authorities are nevertheless satisfied that the overall thrust of the policy has been appropriate to achieve the objectives of the

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<sup>202</sup> Sourrouille and his advisors sought to limit the central bank's rediscount policies, but, as Robert Kaufman observes, "since these banks were linked closely to local political machines and smaller businesses, threats to their liquidity provoked strong protests from most segments of Radical leadership" (1990: 89). See also Boughton 2001: 401; Erro 1994: 139; Manzetti 1991: 158.

<sup>203</sup> Kiguel 1991: 977.

<sup>204</sup> Boughton 2001: 401, 461.



program.”<sup>205</sup> The other Executive Directors agreed: the modifications of the program were approved without objection, and the schedule of disbursements of the SBA funds was extended through May. During the Board’s debate over the proposal, one Executive Director argued that the IMF should continue to show flexibility in its treatment of the Alfonsín government in light of “the far-reaching nature of the measures implemented and *uncertainties with respect to their actual impact on various aggregates*...such flexibility was amply justified by the *strong political determination shown by the authorities* throughout the past nine months and by their continued adherence to the thrust of the adjustment program.”<sup>206</sup>

In early April the government announced that it was weakening some aspects of the stabilization program.<sup>207</sup> The Fund viewed the developments with concern, but continued to put their trust in the team of neoliberals around the Economy Minister. An internal memorandum is revealing in this regard. Vito Tanzi of the Fund’s Fiscal Affairs department, following a visit to Buenos Aires to consult with the Argentine policymakers about reform of the tax system, reported to the Managing Director that the stabilization effort was “showing some signs of strains.” The “gloomy outlook” notwithstanding, Tanzi noted that, in the view of the Fund staff members and outside experts that he consulted, “*the team now in control is the best Argentina is likely to have*. They all recognized that the technical experts were making economic policy under tremendous political pressures, so that they argued that the Fund should support them in any way possible.”<sup>208</sup>

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<sup>205</sup> Minutes of the Executive Board Meeting, EBM/86/43, March 10, 1986.

<sup>206</sup> Italics in the quote from Alternate Executive Director A.A. Agah are added for emphasis. See the Minutes of the Executive Board Meeting, EBM/86/43, March 10, 1986, pg. 54.

<sup>207</sup> The changes included a minor devaluation of the austral and a return to the crawling-peg system of exchange rate management, an increase in public utilities rates, and, most importantly, acceptance of private sector price increases and wage negotiations between industry and the unions. On the April 1986 “flexibilization,” see Erro 1994: 147; Heymann 1991: 104; Kiguel 1991: 979-80

<sup>208</sup> Memorandum from Vito Tanzi to the Managing Director, “Technical Assistance – Argentina,” April 25, 1986 [italics added for emphasis].

The Fund's commitment to the Argentines was tested again in May. Following the policy changes implemented early in the previous month, Argentina had fallen out of compliance with three performance criteria. The head of the IMF's mission to Argentina was skeptical of the policy team's ability to bring policies back into line, and, upon his return to Washington DC in mid-May, he recommended against issuing a waiver to allow the program to continue without a suspension.<sup>209</sup> The Argentines were understandably concerned about the possibility that the program might be suspended. Inflation was rising again, and the country had fallen behind in clearing its arrears to external creditors. The Economy Minister decided to send his Minnesota-trained undersecretary of the economy, José Luis Machinea, to Washington to convince the Fund's top management that the missed targets should be waived. This would be no easy task: the government had missed multiple targets by significant margins, and there was seemingly little political will on the part of Alfonsín and the Radicals to tighten its policies to the Fund's liking. Machinea was willing to commit to a reduction of arrears to outside governments, but made few promises beyond this. After a week of intense discussions with management and staff members, Machinea was able to convince the Managing Director, Jacques de Larosière, to recommend a waiver that would allow Argentina to make the final purchase under the renewed 1984 standby arrangement, and the Fund's staff presented a lukewarm endorsement of the proposed waiver to the Executive Board.<sup>210</sup>

The Board discussion of the waiver on June 23, 1986 was more contentious than previous discussions related to the Sourrouille team's policy proposals. Alexandre Kafka, the Brazilian Executive Director, proclaimed strong support for the waiver, arguing that "the stand-by arrangement with Argentina had far too many

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<sup>209</sup> The net domestic assets of the central bank, the budget deficit, and the level of external arrears all exceeded the targets set in the SBA. See Boughton 2001: 464.

<sup>210</sup> Boughton 2001: 465.

performance criteria...The staff had rightly placed less emphasis on those criteria than on the general thrust of Argentina's remarkable achievements under the program and its policy decisions for the remainder of 1986."<sup>211</sup> Other Board members – particularly Western Europeans – were less supportive. Bernd Goos, the alternate ED from Germany, was forceful in expressing his concerns about the threats to the Fund's own credibility in giving the Argentines repeated waivers. In his statement, Goos emphasized that, while he did not wish to question the credibility of the Argentine economic policymakers, he worried that the "experience under the program thus far could hardly be ignored when assessing the prospects for a timely reversal of the slippages."<sup>212</sup> Ultimately Goos and the rest of the Executive Directors were willing to give Sourrouille and his team the benefit of the doubt, and the waiver was approved, freeing up the remaining SDR 236.5 million.

*Did Private Banks Put Pressure on the Fund?*

To what extent was the approval of the waiver allowing Argentina to draw the last portion of the standby arrangement a result of pressure from commercial banks? The IMF's seal of approval was necessary to unlock the final \$600 million of the Advisory Committee's \$4.2 billion bridge loan. If the IMF refused to grant the waiver, Argentina would once again be on the cusp of default. A withdrawal of IMF support at this late stage in the program could potentially induce a new debt crisis at a time when other regional powers – Mexico and Brazil – were struggling to make payments. Indeed, two separate Executive Directors mentioned this pressure in the June 23 Board debate over the proposed waiver.<sup>213</sup> Yet Argentina and the IMF had been down this

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<sup>211</sup> Minutes of the Executive Board Meeting, EBM/86/101, June 23, 1986, pg. 42.

<sup>212</sup> Minutes of the Executive Board Meeting, EBM/86/101, June 23, 1986, pp. 47-48.

<sup>213</sup> See the comments by Executive Directors Lankester (the UK) and Lundstrom (Sweden) in the Minutes of the Executive Board Meeting, EBM/86/102, June 23, 1986. Note that Lankester argued that the Fund should *not* approve the waiver just because the disbursement was linked to commercial bank credits.

road several times in the past, and the IMF had been willing to suspend lending programs in 1983 and 1984 when the systemic risks of an Argentine default were just as great, if not greater. The problems that the other Latin American states were experiencing should have induced *more* caution on the part of the Fund, given that its resources were both limited and in strong demand. Once the waiver was approved and the final amount of the SBA disbursed, the Fund's exposure in Argentina reached its apex: the Argentines owed the IMF around \$2.9 billion (224 percent of the country's quota).<sup>214</sup> Relatively few countries were in arrears to the IMF at the time, but it was not inconceivable, given the antagonism with which the labor unions, Peronists, and elements of the President's own party viewed the continued servicing of the foreign debt, that Argentina could cease repayment to the Fund. The fact that the IMF was willing to give the Argentine authorities the waiver only after the visit by Machinea, a member of the Economy Minister's core team of neoliberals, is further evidence that when the Fund confronts an unsettled political environment it is more likely to side with governments containing likeminded policymakers.

Inflation accelerated again in July, and in late August 1986 the authorities announced a renewed commitment to tight fiscal and monetary policies along with ceilings on wage and price increases. An important component of that commitment involved the replacement of the obstructionist Alfredo Concepción by José Machinea, whose visit to IMF headquarters helped unlock the last portion of the standby arrangement, as central bank governor. Machinea's appointment was hailed by the Fund's top management. The outgoing Managing Director, Jacques de Larosière, sent an unusually candid congratulatory message to Machinea upon the news of his appointment to head the central bank, writing that he was "particularly happy to learn" of the appointment and that the policy team could count on "the interest of the

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<sup>214</sup> Boughton 2001: 465.

management and staff in the success of Argentina's economic program."<sup>215</sup>

*Things Fall Apart (Again): the end of the IMF-Argentina Relationship, 1987-89*

With a new central bank governor in place, the Argentines immediately entered negotiations with the IMF to secure a new loan. The IMF's negotiating team took a tougher line with the Argentines. The main point of contention concerned Argentina's desire for a larger drawing that would include contingency clauses linked to changes in commodities prices.<sup>216</sup> A worldwide decline in agricultural prices in 1986-87 hit Argentine farmers particularly hard. The Argentines pointed to Mexico's 1986 agreement, which included clauses linked to oil prices, as a precedent for this type of contingent loan.<sup>217</sup> The IMF's staff and management regarded the Mexican arrangement as a highly unusual one that did not set a precedent for future loans, and pushed for a standard agreement with tightened fiscal policies and a reduced current account deficit.<sup>218</sup>

Negotiations between the Fund and the Argentine officials continued through the rest of the year. A breakthrough occurred in January 1987 when Sourrouille and Machinea accepted the lower inflation and current account deficit targets insisted upon by the Fund and signed a Letter of Intent for a new \$1.4 billion (SDR 1.1 billion, 100 percent of quota), 15-month standby arrangement to the management.<sup>219</sup>

Argentina faced a large financing gap in 1987: the Fund's economists estimated that the country would need about \$3 billion to stay current on its external

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<sup>215</sup> In a second note de Larosière wrote of his "particular pleasure...in view of the close working relationship" between Machinea and the Fund's staff and management. Telex from the Managing Director to José Luis Machinea and Juan V. Sourrouille, September 2, 1986; Telex from the Managing Director to José Luis Machinea, September 4, 1986.

<sup>216</sup> Aggarwal 1996: 431-32; Boughton 2001: 466.

<sup>217</sup> Clyde Farnsworth, "Argentina Seeks IMF Loan Tied to Crop Price," *The New York Times*, September 5, 1986, pg. 2.

<sup>218</sup> Boughton 2001: 466.

<sup>219</sup> Argentina also submitted a separate request for a condition-free purchase under the Compensatory Fund Facility (CFF) to counter the effects on export earnings due to the fall in commodities prices.

payments, and the Fund could only account for around one third of that amount.<sup>220</sup>

The IMF's new Managing Director, Michel Camdessus, decided to follow the "concerted lending" approach developed by his predecessor and sought guarantees from the banks that the financing gap would be filled before final approval of the IMF loan. With the understanding that the negotiations with the banks would be fruitless without at least some positive signal from the Fund, Camdessus submitted the Letter of Intent to the Executive Board to approve Argentina's request for funding "in principle." The proposal was submitted with the caveat that Argentina could not start to draw on the new standby arrangement until "satisfactory arrangements" for the financing of the balance of payments needs in 1987 were made.

Submitting the program to the Board for approval at this early stage in negotiations with the banks was highly unusual. Typically, a program approved "in principle" would need to be fully financed in a relatively short period. A handful of Executive Directors expressed concern about the precedent that the new Managing Director was setting with the proposal. In addition, the reports from Argentina indicated that the economic circumstances were deteriorating. C. Richard Rye, the Executive Director from Australia, warned that the proposed program was a "high risk," and several other representatives to the Board agreed with Rye's characterization.<sup>221</sup> During the discussion, several Executive Directors expressed concerns about the credibility of the Argentine policymakers. The goodwill which Sourrouille and the American-trained technocrats in the policy team engendered within the Fund over the past two years had begun to dissipate in the face of consistently bad news from Argentina. In the end, the staff's continued trust in the Argentine policymakers helped convince the Executive Directors, and the new standby

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<sup>220</sup> Boughton 2001: 466.

<sup>221</sup> Minutes of the Executive Board Meeting, EBM/87/29, February 18, 1987, pg. 3. Also quoted in Boughton 2001: 467; Veigel 2005: 309.

arrangement was approved without objection. Argentina would have to wait until the financing arrangements with the commercial banks were sorted out to draw on the Fund's resources.

The discussions with commercial banks to fill Argentina's financing gap proceeded slowly. Mario Brodersohn led the Argentine side of the negotiations with the banks' consortium (still headed by Citibank's William Rhodes), while the Fund's Managing Director Michel Camdessus and two top officials from the Western Hemisphere Department, Eduardo Wiesner and Desmond Lachman, embarked on a global "road show" to sell the program approved in February to worried bankers.<sup>222</sup> Finally, in mid-June, Rhodes notified the IMF's top management that banks had committed to cover 92 percent of the financing gap. On July 23 the proposal was once again brought before the Executive Board; final approval by the Board of the standby arrangement would release badly-needed funds to replenish Argentina's diminishing reserves. The program approved in principle in February was not excessively stringent – nor was it excessively generous at 100 percent of quota. The main difference between this SBA and the previous standby arrangements was the inclusion of three separate performance criteria targeting the fiscal deficit.<sup>223</sup> The Executive Directors were concerned about the "many policy slippages that had occurred since they had approved the program in principle back in February, but they felt that they once again had to give the authorities the benefit of the doubt."<sup>224</sup> With the supplementary financing committed through the banks' Advisory Committee, the first drawing under the new standby arrangement was approved. In months following the July 1987 Board meeting, Argentina's inability to gain control of economic conditions generated

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<sup>222</sup> Boughton 2001: 469-70.

<sup>223</sup> The agreement included (as performance criteria) limits on the combined deficit of the non-financial public sector and the central bank, a limit on the cash deficit of the non-financial public sector, and a limit on Treasury outlays. Minutes of the Executive Board Meeting, EBM/87/107, July 23, 1987.

<sup>224</sup> Boughton 2001: 471.

tensions within the IMF and between the Fund and the World Bank over the right approach to dealing with the country; ultimately, the IMF's patience would run out and it would be forced to cut ties with the Alfonsin government.

#### *Performance under the 1987 SBA*

It was clear by late August that the program was off track. *The Economist* reported that the Argentines would miss the fiscal performance criteria in the lending program "by a mile."<sup>225</sup> Worse, the elections on the sixth of September produced disastrous results for the Radicals: the Peronist Party won a majority in the legislature, and Peronists took control of a majority of the Provinces, as well. The next disbursement was scheduled for October 20, and without a significant tightening of policies it was unlikely that Argentina would be able to access the funds. Alfonsin's frustrations emerged in a post-election speech to the central industrial union, in which the President lambasted the IMF for "trying to apply ridiculous prescriptions that have nothing to do with the people."<sup>226</sup>

But Alfonsin had little choice but to continue to delegate to the Machinea-Sourrouille policy team in the effort to secure additional financing and avert a payments crisis. After discussions with IMF staff, the Argentine policymakers announced a new set of policy measures on October 14. In addition to a new freeze on prices and wages and a big hike in prices for public services, the policies mapped out by Sourrouille, Machinea, and the coterie of American-trained economic advisors were intended to attack the fiscal deficit and inflationary tendencies through deeper structural reforms of the Argentine economy. In order to achieve a 2 percent fiscal deficit target for 1988, the government sent Congress a set of tax reforms, a bill to improve revenue collection and reform revenue sharing between the central

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<sup>225</sup> "Argentina: Anything Brazil Can Do," *The Economist*, September 5, 1987, pg. 76; Boughton 2001: 471.

<sup>226</sup> "Argentina: Worse to Come?" *The Economist*, September 26, 1987, pg. 96.



government and the provinces, developed a schedule to reduce tariffs on imports and exports of agricultural products, and set a goal for the privatization of high-profile state-owned enterprises including monopolies in water and energy provision, the national telecommunications company, Entel, and the national airline.<sup>227</sup> Upon the announcement of the reforms, the US Treasury approved a \$500 million bridge loan for Argentina. The IMF's staff and management remained broadly supportive of the Machinea-Sourrouille team, and the Managing Director approved the request to waive the missed conditions and to modify the existing lending arrangement for submission to the Board.

The credibility of the Argentine authorities' commitment to the program was at stake when the Executive Board met to discuss the proposal on December 2. The view among the EDs was that the prospects for the program were extremely uncertain and that the Argentines' track record was poor and getting worse. As described by Fund's historian James Boughton, the German Executive Director "best represented the view of the Board in concluding that he was supporting the case 'with considerable reservations, and only because Argentina is an exceptional case.'"<sup>228</sup> Two other European Directors advocated adding more binding conditions to the agreement before future drawings could be made, but the staff rejected the idea. In spite of the country's highly unpredictable economic situation, the program was approved by the Executive Board – albeit with three Executive Directors abstaining from the vote, which is evidence of the divisions that the policy of continued support for the Argentines was opening up within the institution.<sup>229</sup>

#### *U.S. Pressure on the Fund Emerges*

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<sup>227</sup> Statement by Mr. Feldman on Argentina, Executive Board Meeting 87/163, December 2, 1987.

<sup>228</sup> Boughton 2001: 472.

<sup>229</sup> The EDs from Australia, the UK, and the Netherlands abstained from voting with the Board over the proposed modification and waivers for the SBA. Boughton 2001: 472.

It is at this point in the episode that evidence for the influence of the United States on the Fund's decision making emerges. We can speculate that the IMF staff and management's leniency toward the Argentines in late 1987 reflected pressure from the Reagan administration, given its interests in protecting American banks and supporting an unstable democracy in the Southern Cone – but without direct evidence to corroborate the association this claim is nothing more than speculation.

As a very simple test of the realist argument about the influence of the U.S. on Fund lending behavior, I used the *Lexis Nexis* database to search for references to Argentina and the IMF in major U.S. and World news publications in each year between 1976 and 2002.<sup>230</sup> From the *Lexis Nexis* search results I selected all the news articles that discussed the IMF-Argentine relationship. I then searched among these articles for references to pressure from U.S. officials on the IMF. Of the 2,708 news articles that mentioned both the terms “IMF” and “Argentina” between 1976 and 1988 there are only a handful that contain specific references to U.S. influence on the lending process. Notably, the first explicit references to American influence on the loans that the Fund made to the Argentines appear after the December approval by the Executive Board of modifications and waiver for missed performance criteria in the standby arrangement. For example, the *Christian Science Monitor* reported that “United States Treasury Secretary James Baker Jr. reportedly had to pressure the IMF

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<sup>230</sup> I searched on the terms “IMF Argentina,” which returned the largest number of articles. The number of articles returned by the search terms increased over time (to save space I only list results to 1988):

Year	Number of Results Returned in <i>Lexis Nexis</i> Search	Year	Number of Results
1976	18	1983	336
1977	12	1984	679
1978	16	1985	417
1979	12	1986	235
1980	15	1987	327
1981	35	1988	343
1982	263		

to grant a waiver to release the funds.”<sup>231</sup> As I describe in the next section, the pressure from the U.S. on the IMF grew in the months following the December decision.

### *The IMF and Argentina Reach a Breaking Point*

Since their appointment in early 1985, Alfonsín had resisted enormous pressure from both the Radical stalwarts and the Peronist-affiliated labor unions to remove Sourrouille and his neoliberal advisors. A stark reminder of the precarious position of the Sourrouille team came in November, when the Economy Minister and his finance secretary, Mario Brodersohn, were “booed and insulted continuously by hecklers” while attempting to give a speech on the government’s economic policies to a Radical Party convention. The economic problems emboldened a faction within the party that advocated a “neo-Keynesian alternative economic plan” and had opposed the neoliberals since their appointment. The leading proponent of the alternative approach, former central bank governor Guillermo Feldberg, observed that Sourrouille, Machinea, and the top economic advisors were viewed as “an alien body within the party.”<sup>232</sup> But Alfonsín could not afford to jettison the Machina-Sourrouille team while the country faced an impending payments crisis and would be engaged in continuous negotiations with the Fund.

The contentious approval by the Executive Board of the waivers and modifications to allow Argentina to make a drawing on the standby arrangement revealed that some officials within the institution were beginning to lose faith in the Argentine policymakers. The skepticism that greeted the December proposal was

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<sup>231</sup> Tyler Bridges, “Argentina, sagging under foreign debt, gropes for a way out,” *Christian Science Monitor*, December 17, 1987, pg. 12. Aggarwal also makes reference to U.S. efforts to influence the IMF between October and December 1987 in *Debt Games*, pg. 437.

<sup>232</sup> Quotations from Tim Coone, “Economy Minister Faces Shaky Future in Argentina,” *The Globe and Mail*, December 26, 1987. See also Shirley Christian, “Argentina’s Economy Seen as Out of Control,” *The New York Times*, April 18, 1988, pg. 14.

warranted: a January 1988 mission led by high-ranking Fund official Desmond Lachman found that Argentina had already slipped out of compliance with the fiscal targets. The projections indicated that Argentina would breach the 2 percent ceiling for the fiscal target by two and a half points. Worse, Argentina briefly fell into arrears to the Fund after the government missed a payment due at the end of January.<sup>233</sup> Once again, the IMF suspended the program and the Argentines and IMF staff were forced to seek the Board's approval for a waiver.

While the U.S. and other creditor governments put together a \$550 million bridge loan to help Argentina clear its arrears to the Fund and stay current on its payments to the banks, the Argentines went to IMF headquarters to work out the details of a new Letter of Intent to restore the standby arrangement. The IMF and the Argentines reached a compromise of a 2.7 percent of GDP fiscal deficit target for 1988. With a new Letter of Intent in hand, the staff and management brought the proposal to the Executive Board for approval.

As described by James Boughton, at the March 18 Board meeting the "Directors made a rare show of strength and insisted that the terms of the standby arrangement be strengthened before they would approve it."<sup>234</sup> The thrust of the Executive Directors' objections to the proposal focused on two issues: (1) the persistent policy slippages, particularly in the fiscal area; (2) the lack of committed financing from private and official sources to cover the huge financing gap that the Argentines faced in 1988. Some EDs suggested that the program be suspended until sufficient financing was guaranteed; the Executive Director representing Argentina rejected the proposal on behalf of the government, and the Managing Director proposed instead that the SBA be modified to require that "sufficient progress" on a

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<sup>233</sup> Boughton 2001: 473.

<sup>234</sup> Boughton 2001: 474.

funding package be achieved at the time of the next scheduled drawing in May. Interestingly, the American representative to the Board, Charles Dallara, argued that there was no precedent for Camdessus' proposal and sided with the Executive Directors advocating a suspension of the program until real progress was made on filling the financing gap. Camdessus pushed back against the American ED's objection, claiming that the situation confronting the Board was "without precedence owing to the magnitude of the possible gap that could emerge over the next few months."<sup>235</sup> Camdessus' view won out, and the waiver and revisions to the program were accepted. The Argentines were once again able to draw on the SBA.

#### *The Fund's Patience Wears Out*

The patience of the Fund's staff and management was stretched to the breaking point when it became clear in May that the fiscal targets were exceeded. Negotiations over financing from private and official sources were at a standstill. Alfonsín's government antagonized banks by missing several deadlines for interest payments. The President further infuriated creditors by suggesting that interest rates should be lowered to the "historical" rate of 4 percent, causing one banker to ask: "is this man living on the moon?"<sup>236</sup> In June, the IMF's staff and management reached agreement that the probability of the program's success was close to zero, and the Fund officially suspended the standby arrangement.

The Argentine authorities visited Washington in late July in an attempt to restart the program. After three years of starts and stops with this policy team, the Fund's staff and management were unconvinced that even a drastic policy shift could deliver a successful stabilization effort. Negotiations between the Argentines and the Fund continued into the fall. In early August the Economy Minister announced a new

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<sup>235</sup> Boughton 2001: 474 (quote). Much of this section draws on Boughton's official IMF history, since the Minutes of this particular Board meeting are restricted.

<sup>236</sup> "Argentina: De Facto Default?" *Latin American Markets*, June 17, 1988.

shock treatment (“Plan Primavera”) to try to convince the IMF of the government’s seriousness. Sourrouille and Machinea publicly proclaimed that IMF support was forthcoming; in reality, the Fund had turned off the spigot.<sup>237</sup>

The United States, which had been a relatively disinterested observer of the Fund-Argentina relationship until 1987, grew concerned about the consequences of the suspension of IMF funding. Desmond Lachman recalls that the United States leaned quite heavily on the IMF – and Camdessus in particular – to approve a waiver that would enable Argentina to begin drawing on Fund resources again. In Lachman’s view, “the IMF did not want to further tarnish its credibility by supporting something that was going to blow up.”<sup>238</sup> On the horizon loomed the May 1989 presidential election; the Peronist candidate, Carlos Menem, was campaigning on a populist platform, including a call for a five year debt moratorium.<sup>239</sup> When the IMF refused to move, the Argentines, with the backing of U.S. officials, took their case to the World Bank. Here American pressure was apparently more effective: on September 25 the Bank announced that it was extending a \$1.2 billion loan with very weak conditionality to Argentina. *The Washington Post* and several other major news organizations reported that the Bank’s president, Barber Conable, “had been urged by the American government to get some help to the hard-pressed nation, lest the government of Raul Alfonsín become unstable.”<sup>240</sup> By breaking the established

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<sup>237</sup> Jeremy Morgan, “Fears for an Argentine Crash Package,” *The Guardian*, August 5, 1988; “Argentina: New agreement to be signed with the IMF after ‘positive’ negotiations,” *BBC Summary of World Broadcasts*, August 2, 1988.

<sup>238</sup> Interview with Desmond Lachman, Washington DC, April 6, 2009. For more evidence of pressure from the U.S., see “Argentina: Not Much Luck,” *Latin American Markets*, July 29, 1988.

<sup>239</sup> Menem abandoned the moratorium later in the campaign. Shirley Christian, “Argentina Prepares Plan To Try to Rescue Economy,” *The New York Times*, August 2, 1988, pg. 1; Stephen Fidler, “May Vote Complicates Argentina’s Debt Crisis,” *Financial Post*, September 26, 1988, pg. 11.

<sup>240</sup> Hobart Rowen and Robert J. McCartney, “World Bank Agrees To \$1.25 Billion in Loans to Argentina; Country to Make Major Economic Reforms,” *The Washington Post*, September 26, 1988, pg. A12; “World Bank takes a risk,” *The Independent*, September 27, 1988, pg. 23; “IMF Fights for Territory,” *The Independent*, April 5, 1989, pg. 23; “Latin America’s debt; Argentina finds a friend,” *The Economist*, October 1, 1988, pg. 91; “Twins That Won’t Tango,” *The Economist*, March 11, 1989, pg. 17.

tradition in which the Bank did not lend until an IMF program was in place, the World Bank's actions opened a deep rift between the two international institutions.<sup>241</sup>

The World Bank's gamble was a poor one, because the new stabilization plan did nothing to stem the inflationary pressures in the Argentine economy. Inflation climbed to 17 percent in March and then to 34 percent in April. Sourrouille and Machinea continued to seek IMF support, but talks in January and February ended in failure, and in early March the World Bank suspended its program.<sup>242</sup> With the country's relationship with the international financial institutions effectively severed, Alfonsín acceded to the calls from the rank-and-file of the Radical Party and replaced Economy Minister Sourrouille and the remaining American-trained technocrats with "an old party hack" and "veteran Radical war horse" named Juan Carlos Pugliese.<sup>243</sup> José Luis Machinea was also replaced as head of the central bank by Enrique García Vázquez. By the time that the Radical Party candidate Eduardo Angeloz was soundly defeated by Carlos Menem in the May election, the Argentine economy was on the cusp of hyperinflation. Monthly inflation shot from 78 percent to just below 200 percent in July. Argentine firms led a massive flight from the austral, forcing the central bank to sell large amounts of dollar reserves to keep the currency afloat. When Machinea announced that the central bank would no longer exchange australs for dollars, the flight to the dollar "caused the virtual collapse of the price system in domestic currency."<sup>244</sup> Rioting and looting spread throughout the country in late May. With the Argentine economy in shambles, Alfonsín turned the presidency over to the Peronist successor five months before the official date of succession. Within a year

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<sup>241</sup> Interview with Christian Brachet, Washington, DC, March 31, 2009; Clyde Farnsworth, "Accord Seems Near on Roles of I.M.F. and World Bank," *The New York Times*, March 30, 1989, pg. 1.

<sup>242</sup> "Argentina: Double Talk," *Latin American Markets*, February 10, 1989.

<sup>243</sup> Erro 1994: 154 (first quote); Smith 1990: 26 (second quote). See also "Argentina: Down Tools," *The Economist*, April 8, 1989, pg. 46.

<sup>244</sup> Schamis 2003: 137.

and a half, neoliberals would have a degree of control over economic policymaking in a manner not seen since in Argentina since the military government of 1976-81.

*Summary of the Period of Medium Neoliberal Influence in Argentina*

The fourth and final episode provides further evidence of the importance of shared ideas to the Fund's decision making process. The rise of a small coterie of American-trained advisors within the Economy Ministry generated a very different pattern of relations than prevailed in the third episode: the IMF enthusiastically embraced a "heterodox" stabilization program (the *Plan Austral*), and was willing to extend waivers for noncompliance at several points. The ability of the Minnesota-trained economist José Luis Machinea to personally convince the Managing Director to recommend a waiver is strong circumstantial evidence in favor of my explanation. These episodes provide some of the most compelling evidence to support my political explanation for Fund decision making. It is impossible to understand how the Fund shifted from the tough line it took in February 1985 to the enthusiastic support of the *Austral* program four months later without taking the appointment of Sourrouille's team of neoliberals into account. The political environment was as difficult under Sourrouille and his advisors as it was for the first policy team appointed by President Alfonsín, as was the country's precarious economic situation. Faced once again with a pattern of noncompliance, the IMF had a clear political choice: it could suspend the standby agreement and risk dislodging likeminded economic policymakers that the staff trusted, or it could provide take a softer line, sacrificing some enforcement credibility while supporting a team that, in the staff's view at the time, was "the best Argentina is likely to have."<sup>245</sup> For the first three years of the episode, the IMF was inclined to overlook missed targets in order to serve a broader political purpose. Only

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<sup>245</sup> Memorandum from Vito Tanzi to the Managing Director, "Technical Assistance – Argentina," April 25, 1986 [*italics added for emphasis*].



in the face of mounting evidence that the policy team was incapable of following the programs' strictures did the Fund's patience give out.

This period provides mixed evidence for the alternative explanations. It is the only period in which pressure from the United States government is readily apparent in written accounts of the negotiations. Clearly there was pressure on the Fund to support the Alfonsín government at a vulnerable economic and political point.<sup>246</sup> But a remarkable aspect of the episode is that the efforts by the United States to force the Fund to approve a waiver to restore the suspended program in 1988 were unsuccessful. Even when powerful states have clear interests in specific programs, the ability to use the IMF for strategic purposes is not a given.

### **Concluding Thoughts**

This chapter was organized around four discrete episodes spanning a quarter century of Argentine economic history. In two of the episodes (1976-81 and 1991-2001), neoliberal economic ideas were ascendant. A third period was marked by a turn toward economic nationalism (1981-85). In the final section I considered the relationship with the Fund in a mixed case (1985-89). The purpose of the within-unit episodic comparisons was twofold: (1) I wanted to see whether the degree of neoliberal influence tracked the IMF's treatment of the country in each period (was the Fund's treatment more lenient during the "high" episodes?); (2) I used material from the IMF's archives to provide evidence that the degree of shared beliefs between the institution and the policy team was important in the Fund's decision making process. On both counts the chapter was supportive: the variation in the Fund's relationship with the Argentines across episodes matched the predictions from my theoretical framework; in addition, I found more direct evidence of the causal mechanisms

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<sup>246</sup> In March 1987 the government put down an attempted military coup. Democracy was preserved, but the legitimacy of Alfonsín's rule was threatened by the uprising among the nationalist factions in the military. See Erro 1994: 150.

linking the IMF's treatment of Argentina to the institution's clear preference for policy teams composed of likeminded authorities in the internal memorandums and records of Executive Board meetings.

The four episodes of Fund-Argentine relations, each featuring its own complex mix of actors (executives, economic policymakers, IMF officials, powerful states) and intentions, are not perfectly explained by any of the existing explanations. But combined with the quantitative evidence in chapter 3, the findings suggest that the ideational approach to IMF lending behavior I develop in the dissertation has powerful empirical implications (see table 5.2 below for a summary of the chapter's findings).

The case study also suggested that the IMF takes the broader political environment into consideration. I found a number of references in internal documents to the Fund's perceptions of the political constraints under which various policy teams operated. However, the IMF was slow to adjust its treatment in light of mounting evidence from several episodes that the political consensus necessary to support stabilization and reform efforts was missing. For example, despite the fact that the difficult political circumstances confronting the policymakers in the fourth episode (treated here as a case of medium neoliberal influence) were no different than the problems faced by the non-neoliberals in the previous period, the Fund took a softer line with the new policy team. Later, the IMF's fixation on the ideational character of the top policy elites meant that the institution overlooked evidence that the political consensus which supported Menem's turn to the neoliberals in 1991 had dissolved. As the recession and austerity efforts began to generate widespread social discontent in the late 1990s, the room for the policy team to maneuver was constrained; at the end of the second episode, divisions within the Radical government led by President de la Rúa presented serious obstacles to reform efforts – yet the IMF continued to support the neoliberal-led policy team with lenient treatment.

Table 5.2: Overview of Argentine Case Study

Period	Treatment by the IMF	Degree of Neoliberal Influence	Domestic Political Environment	Alternative Explanations?
1976-1981	<i>Lenient</i> : two programs signed during the period (1976 and 1977). Conditionality is weak and weakly enforced. Government does not draw on second loan.	<i>High</i> : central bank governor Adolfo Diz was Chicago economics PhD; economy minister Martinez de Hoz did not possess neoliberal credentials but was a friend of the IMF; other American-trained officials occupied advisory positions.	Labor and opposition are quiescent under military regime, but the Diz-Martinez de Hoz economic policy team was constrained by the junta's unwillingness to bear full costs of austerity and liberalization.	Little evidence to link alternatives to treatment by Fund in the period. No evidence of pressure from U.S. to tighten terms, despite Carter administration's concerns about the junta's human rights abuses.
1981-1985	<i>Tough</i> : two standbys signed following difficult negotiations. Both programs (January 1983 and December 1984) include numerous conditions and are suspended without waivers.	<i>Low</i> : rapid turnover of officials and policy switching marked the final years of the military regime (1981-83); officials in the new democratically-elected government were non-neoliberals, skeptical of the Fund's advice	Unstable, divided military government precedes democratic transition in Dec. 1983. Newly-elected Alfonsín government is divided between nationalists and liberals. Radical-led government does not have the support of powerful Peronist-associated labor.	UK does not try to prevent Fund from extending program in late 1983; tough treatment precedes and follows democratic transition. Basic policy disagreements between Fund and Argentines peak during this period; risk of region-wide default poses threat to banks, Fund's resources.

Table 5.2 (continued)

Period	Treatment by the IMF	Degree of Neoliberal Influence	Domestic Political Environment	Alternative Explanations?
1985-1989	<i>Mixed</i> : lending arrangement restarted in June 1985 and completed thanks to waivers issued in March and June 1986. New agreement signed in July 1987; waivers issued in December and March 1988. Program cancelled due to noncompliance in May 1988 in face of strong pressure from American officials.	<i>Medium</i> : the appointment of Juan Sourrouille as economy minister brought a group of neoliberals into government, albeit in advisory positions until Machinea's appointment as central bank head in Sept. 1986.	Divisions within the Alfonsín regime remain, as neoliberals do not have the support of Radical Party rank-and-file or labor unions. In 1985-86 the policy team is divided between Sourrouille's group in the economy ministry and Radical Party stalwart in central bank. After 1987, Alfonsín struggles with Peronist-controlled legislature and provinces.	Period marks the clearest case of external pressure on the Fund. Strong U.S. pressure emerges in 1987, but Fund suspends program in spite of lobbying from Treasury officials. Argentina continues to face problems servicing the external private debt, but little evidence that banks were able to influence IMF's decision making during the period.
1991-2001	<i>Lenient</i> : five separate programs signed during the period (July 1991, March 1992, April 1996, February 1998, and March 2000). Multiple waivers issued for missed performance criteria; programs contain few conditions (only March 1992 EFF contains binding structural conditions).	<i>High</i> : American-trained economists (Cavallo, Fernandez, Pou, Machinea) control both the economy ministry and central bank throughout the period.	Menem's surprise turn to neoliberals in 1991 is widely supported, giving policy team significant room to carry out reforms. The political consensus underpinning the reform effort unravels after 1996 as recession and austerity measures generate social discontent; policy team under Radical government (1999-2001) is constrained as political situation deteriorates.	Period provides weakest evidence for the technocratic view of the Fund (fiscal discipline and structural reforms are recognized as important but not enforced); some evidence in favor of bureaucratic explanation (officials from outside Western Hemisphere Department raised concerns about leniency after 1996).

Table 5.2 provides summarizes some of the key findings in the Argentine case study. In the table I characterize the Fund's treatment in each period, the degree of neoliberal influence, the domestic political environment, and the role of alternative explanations.

This chapter focused mainly on explaining the Fund's treatment of different policy teams between 1976 and 2001. In line with the cross-national evidence, the Fund's elective affinity for teams composed of likeminded authorities resulted in better treatment. Also consistent with the statistical results (presented in chapter 4), neoliberal officials in Argentina appear to have benefited politically from their closer relationship with the IMF. Argentina had 24 finance ministers between 1970 and 2000; three are considered neoliberals by the criteria I developed in chapter 3. Neoliberal economy ministers survived, on average, for 1,096 days; non-neoliberals in Argentina lasted, on average, less than a year (353 days).<sup>247</sup> The difference is statistically significant ( $t = 2.26, p = 0.03$ ). The difference in survival rates between neoliberal and non-neoliberal central bank governors mirrors the findings for finance ministers. The four neoliberal Argentine central bankers between 1970 and 2000 held office, on average, for 1,209 days. The average survival time for non-neoliberal central bankers in Argentina over the same period was 213 days ( $t = 5.06, p < 0.0000$ ).

Domingo Cavallo understood that his neoliberal credentials helped him gain better treatment from the Fund. When asked to reflect on the importance of his Harvard background for his relations with IMF officials, Cavallo replied that his training was “enormously helpful in establishing a relationship of confidence.”<sup>248</sup> The

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<sup>247</sup> A policymaker is coded as neoliberal if he or she earned a masters degree from a top-30 ranked American economics department or had significant experience in the IMF or World Bank. By these criteria, neither Martinez de Hoz nor Sourrouille or coded as neoliberal; when a looser definition that records these two as neoliberals is used, the average survival time for neoliberals is 1,323 days, compared to 216 days for the remaining economy ministers ( $t = 6.16, p < 0.0000$ ).

<sup>248</sup> “Ayuda muchísimo el establecimiento de una relación de confianza.” Quoted in Heredia 2004: 329.

IMF faces enormous uncertainties in the lending process, and the presence of likeminded authorities helps reassure the staff and management that the authorities are going to make a good-faith effort to carry out the program. In Argentina, the IMF was “willing to give Domingo Cavallo more slack than Bernardo Grinspun. The Fund is more likely to take someone who shares our worldview at their word.”<sup>249</sup> In my reconstruction of the Argentina-IMF story, shared economic ideas proved to be far more important than other factors – pressure from the U.S. and private banks, economic performance and systemic risks from an Argentine economic collapse, domestic political institutions – in explaining the variation in the Fund’s treatment of the country between 1976 and 2001.

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<sup>249</sup> Interview with Desmond Lachman, Washington DC, April 6, 2009.

## Chapter Six

### Conclusions – the Future of the Fund

When the International Monetary Fund was created, capital was immobile, domestic currencies were exchanged at fixed parities, and many of the world's poor countries remained tethered to colonial relationships with European powers. The lessons from the interwar period were fresh in the minds of the institution's architects: competitive currency and trade practices, as well as unregulated cross-border capital flows, could have pernicious political and economic consequences. The world needed a multilateral institution to make resources available for countries experiencing short-term balance of payments difficulties. An effective multilateral lending institution was essential to maintaining smooth international economic relations.

Over time, the international economic and political environment changed dramatically, and the IMF changed with it. The Fund, once an obscure part of the Bretton Woods institutional architecture, became an important actor in world politics. It took a leading role in tackling a series of regional and global economic challenges – the Latin American debt crisis, the transition from socialist authoritarianism to market democracy in Eastern Europe, the wave of financial crises that swept the globe in the 1990s, and the ongoing global crisis originating in the collapse of several large American financial institutions in September 2008 – and at each point its defenders suggested that the institution's resources and policy advice fostered desirable outcomes (global economic stability and pro-market reforms), while critics bemoaned both the logic and consequences of the conditions attached to its loans. Neither side can deny that the lives of billions of people in low- and middle-income countries have been affected by decisions made in an office building on 19<sup>th</sup> and H Streets in Washington, DC. Whether the IMF has been, on balance, a force for good or ill in the world remains a topic of intense debate.



### *Overview of the Chapter*

This dissertation was motivated by several important questions about the Fund's behavior in low- and middle-income countries: How does the IMF make decisions about the prudent use of its resources? Why is there so much variation in the IMF's treatment of its borrowers? What are the political consequences of IMF lending arrangements?

The argument in the preceding chapters relied on shared economic ideas to answer these questions. In this concluding chapter I review the logic of the argument and restate the key findings in the dissertation. Later, I consider a possible alternative interpretation of the empirical results related to the IMF's treatment of borrowers. In the third and final sections of the chapter, I draw lessons for future research on international organizations and for the proposal to reform the IMF.

### **Brief Review of the Argument and Evidence**

In the first section of the dissertation I developed a new theoretical framework to explain variation in the Fund's lending activities in low and middle income countries. My argument consisted of two steps. First, I made the case that the structural constraints on the IMF are looser than portrayed in the conventional approaches to the institution. A number of factors contribute to the Fund's autonomy. Unlike sovereign states the Fund does not face serious threats to its survival from competing institutions, and in contrast to the situation facing private investors, the risk that borrowers will renege on their debt to the Fund is low. The IMF does not depend on contributions from non-borrowing members to fund its operations. Additionally, as discussed in chapter 2, the informal rules that govern the institution's activities have empowered the staff members and weakened the Executive Directors, who (ostensibly) are the representatives of the narrower interests of powerful member states.

Rather than view the IMF as an institution in thrall to the material interests of powerful states, private financial actors, or individual staff members, I argued that the Fund should be viewed as a purposive actor in world politics that is primarily driven by a set of economic ideas. The worldview of the Fund's staff and management is shaped by a nexus of economic beliefs that I refer to as "neoliberal."<sup>1</sup> Neoliberal ideas have been dominant in top American economics departments for many years.<sup>2</sup> These ideas are often portrayed as simple descriptions of an objective economic reality accepted by all serious economists ("good economics"), but the variation in the degree to which the core assumptions of the neoliberal consensus are contested by practitioners in different national settings belies the claim.<sup>3</sup> The data I gathered on the training of upper-level management at the IMF demonstrated that, at its upper reaches, the institution is dominated by American-trained economists.

The second step of the argument links the ideas that shape the Fund's purpose to the choices that the staff and management make about the prudent use of the institution's resources. In chapter 2 I argued that the prospects for IMF lending arrangements are highly uncertain; according to an internal staff memorandum, over

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<sup>1</sup> As defined in chapter 2, neoliberalism is a shared mental model that consists of three core assumptions (the market is the most efficient mechanism for allocating resources, market actors have rational beliefs, and free exchange of goods across borders is desirable) and three auxiliary policy recommendations (governments should pursue fiscal discipline, a country's economic orientation should be outward, and countries should rely on markets for the allocation of goods and resources and for the setting of prices).

<sup>2</sup> Some argue that the neoliberal consensus in American economics is breaking down as experimental evidence from the branch of the discipline influenced by psychology, behavioral economics, undermines the assumption of rational behavior that forms one of the planks of the consensus. It is unclear how many inroads behavioralists have made in shifting the mainstream of the field. In Marion Fourcade's assessment of the American economics discipline, "the assumption that people behave rationally was not seriously challenged until the recent emergence of behavior economics – but even that view remains marginal in economics today" (2009: 94). It is possible that the ongoing global financial crisis may force the leading lights in the discipline to rethink some of the deeply held assumptions at the core of the neoclassical consensus. But all academic disciplines are large ships that take a long time to turn around – and this is particularly true for one in which "training is homogenous and scientific rules are fairly rigid" (Fourcade 2009: 92).

<sup>3</sup> For a fascinating discussion of the differences between the economics profession in the U.S., UK, and France, see Fourcade 2009. Fourcade presents evidence from surveys administered to practicing economists in different countries that illustrate a large degree of discord – rather than consensus – on a range of basic economic principles (2009: 6).

75 percent of the structural adjustment programs concluded in the years between 1986 and 1994 were suspended for noncompliance. The Fund's economists have to contend with highly unsettled and complex political dynamics in the countries that seek to make use of the institution's resources. An important point follows: the IMF is forced to make fundamentally political decisions in the face of strong environmental uncertainty. The IMF's decision making process is not insulated from social and political relations in the developing countries that form its main constituency.

The Fund's loans are intended to support economic stabilization efforts and to prod countries to follow a beneficial path of reform, but the IMF's powers of persuasion and coercion are limited. The presence of likeminded authorities in top policy positions in borrowing countries reassures the Fund that the team in control is likely to follow the institution's preferred set of policies, and presents an opportunity for the institution to provide political support for policy teams that share the Fund's commitment to the core set of neoliberal economic beliefs. Because the IMF likes and trusts fellow neoliberal travelers, I expected to observe that the Fund discriminates in its treatment of borrowers in favor of policy teams populated with likeminded officials.

Indeed, in chapter 3 this is precisely what I found. In that chapter I made use of new, comprehensive data on the extent of conditionality and size of loans in 503 loans signed between 1980 and 2000 to test the argument, as well as a measure of the issuance of waivers for noncompliance with binding conditions (1980-1997). I also introduced the measure of the degree of neoliberal influence on policymaking (a variable I referred to as *proportion neoliberal*) which relied on information on educational background and work experience with the Bank and the Fund for over 2,000 individuals to record whether top policymakers (executives, finance ministers, central bankers, and other important officials) were likely to hold neoliberal beliefs. I

found strong positive associations between my key explanatory variable and the size of loans and between *proportion neoliberal* and the presence of waivers. The indicator for the degree of neoliberal influence on policymaking displayed a strong negative relationship with the number of conditions in IMF loans. The results in chapter 3 were robust to numerous alternative specifications, the inclusion of a wide range of additional covariates, and the exclusion of outlying observations.

Chapter 4 turned to testing an interesting implication of the theoretical framework and the result in the previous chapter: if likeminded authorities benefit from a systematic pattern of lenient treatment from the IMF, are there political payoffs for their ability to deliver good relations with an international institution that, for many poor countries, functions as an economic lifeline? I argued that neoliberal officials in borrowing country are particularly valuable to the political masters that determine their fate. Consequently, I expected to find that neoliberals under IMF programs survive in office longer than their non-neoliberal counterparts. Working with a large sample of top policymakers (539 finance ministers and 295 central bank executives in countries under IMF lending arrangements) and event history models, I found evidence in favor of the claim. Among countries under active IMF programs between 1980 and 2000, the risk of removal was approximately 29 percent lower for finance ministers and 40 percent lower for central bankers that have neoliberal credentials.

In the second part of chapter 4 I investigated the possibility that, because likeminded officials are valorized by the Fund, the political influence of neoliberal economists might be correlated with the number of years a country spent under IMF lending arrangements. Indeed, I found a strong relationship between the degree of IMF involvement in a country and the proportion of the top policymaking positions held by individuals that share the Fund's worldview, a finding that persisted even when I took steps to account for the possible endogeneity of the relationship.

The final empirical chapter in the dissertation was a qualitative comparison of four periods in Argentina's long and bitter relationship with the IMF. The contours of the case illustrated the importance of shared economic ideas to the Fund's decision making. During the two periods in which neoliberals were ascendant in Argentina (1976-81 and 1991-2001), the IMF's treatment of the country was lenient; when officials that were less sympathetic to neoliberalism took control of policymaking in the first years of the new democratic regime in Argentina (1983-85), the Fund's relationship with the country deteriorated. During a fourth period (1985-90) in which neoliberals had some sway over economic policymaking but were unable to consolidate their control of the top positions in government, the IMF initially rewarded the team with lenient and weakly enforced conditional loans; later, the Fund's patience wore thin, and it suspended a program in the face of pressure from U.S. officials on the staff and management to continue to provide support for the Alfonsín government.

As a test of my argument, the case study had several advantages: I could develop a better measure of ideational consonance than the noisy (but useful) indicators of neoliberal ideas I employed in the quantitative tests; I was able to pay close attention to the broader political context in which programs were negotiated; I was able to more closely examine the way in which the other explanations outlined in chapter 2 accounted for the facts of the case and, at some points, complemented my ideational explanation; and, finally, the within-unit comparative structure of the case allowed me to see how variation in the key explanatory variable affected outcomes (IMF treatment) while many other factors were held constant. While the other explanations were important factors at several points in the Fund-Argentine relationship, the evidence presented in chapter 5 allows me to make a strong case that the degree of ideational consonance between the policy team and the Fund is the most consistently important causal factor influencing IMF decision making in the 25-year

period I examine.

The Argentine case study provided a number of instances that demonstrated the political calculus shaping IMF decision making. The IMF's brand of politics focuses on the character of a small group of policy elites, but the archival materials suggested that the institution's staff members did pay some attention to the political constraints under which the various policy teams operated. However, the episodic evidence indicated that the IMF's support for likeminded policymakers sometimes came at the cost of a broader assessment of the extent to which the political consensus necessary for the implementation of tough stabilization and reform efforts had eroded.

### **Are Neoliberals More Competent Policymakers?**

My argument outlined in the previous section is premised upon an assumption: the reason the Fund favors certain types of policy teams is that the institution's staff and management have an elective affinity for likeminded individuals. The Fund cannot know with any calculable certainty whether the institution's purpose will be served when it sits down with a prospective borrower to hammer out the terms of a lending agreement; consequently, the political and social preferences (or less felicitously, biases) of the IMF exert an important effect on decisions about the tightness of conditionality, generosity of loans, and response to the failure of borrowers to meet performance criteria.

Others might interpret the findings in the dissertation differently. Perhaps the Fund's decision making has little to do with political dynamics: the staff and management prefer to work with neoliberals because these individuals are simply better suited to the task of managing economic policy. The socializing experiences that, in my argument, transmit neoliberal economic ideas to policymakers also confer a bundle of other attributes. Along with economic ideas, economists with advanced training from highly-ranked American economics departments may have technical

skills or innate abilities that make them more “competent” economic officials. This perspective assumes that neoliberal credentials are in themselves meaningful signals of a policymaker’s type. There is no need to refer to the ideas held by IMF staff members if *all* rational individuals perceive neoliberals to be better equipped to carry out stabilization and reform programs. It is not just that neoliberal officials in low and middle countries speak the same language as the IMF’s economists; they are fluent in the *correct* language.

It is not entirely clear what evidence to look for that would allow me to differentiate between the ideational mechanism I proposed in the dissertation and the competence mechanism. The problem is that ideas and technical abilities are intertwined.<sup>4</sup> One possible approach, which I leave for future research, is to identify different sites of socialization that impart the same level of technical ability to policymakers but confer distinct economic ideas. The fact that there are distinct national styles of economics suggests one productive empirical avenue.<sup>5</sup> Colonial relationships that drew graduate students to the French educational system in many African countries, for example, provide an opportunity to compare the IMF’s

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<sup>4</sup> This issue, which is framed as the indeterminacy of ideational and material factors, has given critics ammunition in their efforts to deemphasize the explanatory contributions of shared ideas in the field of International Relations. For example, Michael Desch, in a survey of research in security studies, proclaimed that ideational explanations “do not provide much additional explanatory power beyond existing theories” (1998: 158). Similarly, William Wohlforth has criticized the ideational explanations for the end of the Cold War, suggesting that the “question remains whether accounts focused on ideas really advance claims of causal importance that contradict findings about the role of material incentives” (2005: 167). Even one of the leading figures in constructivist IPE, Craig Parsons, accepts that “the basic problem for ideational argument is to separate the causal effects of actors’ beliefs from direct structural or institutional pressures” (2003: 10). Parsons develops an approach to distinguish the independent causal effect of ideas from the effect of material variables: if an intersubjective idea is posited to exert a causal impact on an outcome, we should observe that two actors in the *same objective material position* chose different outcomes because they held different ideas (“where ideas strongly crosscut prevailing lines of organization in a political arena, we can display their autonomous impact in robust, methodologically conservative ways...such cases will not prove that ideas matter everywhere, but they will establish that ideas can be major causes in politics”) (2003: 11-12).

<sup>5</sup> On the difference between practices in the economics professions in the U.S., France, and UK see Fourcade 2009. The differences in viewpoints discovered in Fourcade’s interviews between French and American economists are wide and persistent.

treatment of governments composed mainly of French-trained economists and its relationship with American-trained officials.<sup>6</sup>

There are reasons to approach the competence-based explanation of the findings with suspicion. Two questionable assumptions underlie the argument. The first is that economic policymaking is too complex to be left in the hands of non-specialists (the engineers, lawyers, leaders of industry, and other generalists that serve in top positions in many low- and middle-income countries). If neoliberals are indeed more competent, it must be the case that they put their skills to use by consistently delivering better policy outcomes.<sup>7</sup> In chapter 4 I gave examples of highly successful policymakers that were not trained in American economics departments – as well as several high-profile examples of venal U.S-trained and IFI-affiliated officials – which suggest that the case for differences in the baseline level of competence between types of policymakers (neoliberal and non-neoliberal) is weak.

The second problem is that competence in the realm of policymaking is private information that is not revealed until after an individual has gained office.<sup>8</sup> It is

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<sup>6</sup> I thank Nicolas van de Walle for suggesting this point. Others have suggested to me in private conversation that not only are the best and brightest students disproportionately attracted to American economics departments, but that departments outside the U.S. are much weaker in training and consequently produce sub par economists. There is a circular logic to this claim: neoliberal ideas are objectively correct, which means that only socializing processes in which neoliberalism forms the normative basis for the technical training can produce competent practitioners. In my view, this extreme position reveals more about how ideas shape *perceptions* of competence than about the nature of individuals' capabilities.

<sup>7</sup> Competence is a relational concept – it is only meaningful when it is for some defined purpose. A corrupt finance minister would be considered incompetent when the outcome of interest is delivering good public policies, but might be exceptionally skilled at lining his own pockets.

<sup>8</sup> In the literature on political business cycles, the concept of competency has been employed to explain manipulation of macroeconomic policy by opportunistic governments. As formulated most famously by Rogoff (1990), rational voters develop beliefs about the effectiveness of incumbent governments based on observed outcomes. Elected officials can increase the money supply just before elections, temporarily gaining the advantage of greater perceived competence before the post-election costs of the policy are revealed and voters discover the government's true level of competency (see Keech 1995: 58-61 for a review of other competency-based work on political cycles). In this well-established literature, competency is a property that can only be assessed based upon the observed performance of government officials. This property enables incumbents to insidiously manipulate the levers of fiscal and monetary policy to signal their own competence to observers.



difficult to measure skillful policymaking – informed observers are likely to disagree based on their own beliefs about what constitutes effective management of the economy (high growth rates versus more equitable distribution of income, for example) – and predicting whether an individual will be successful based on a set of observed characteristics is an even bigger challenge. Yet the competence argument presumes that, as a rule, economists with degrees from highly ranked American universities or experience working in the Fund or the World Bank are more skillful, and that this information is both accurate and widely known.

In addition, the evidence presented in chapter 3 contradicts the argument about the greater competency of American-trained policymakers. Recall that I found a very strong relationship between the proportion of neoliberals in top policy positions and the likelihood that a borrower would receive waivers. If neoliberals possess a greater degree of policymaking competency, then they should not need the Fund to issue waivers to allow their government to continue drawing on the institution's resources – the need for waivers, after all, indicates a failure to meet the policy targets specified in the Letter of Intent.

An example of a specific policymaker's experience is helpful in demonstrating the limits of the competence argument. In 1982 Domingo Cavallo, a Harvard economics PhD with a reputation for brilliance, became head of Argentina's central bank. As I mentioned in chapter 4 and detailed in a footnote in chapter 5, Cavallo's first foray into policymaking was disastrous: after his policies exacerbated the country's severe inflationary crisis he was replaced, just 54 days following the date of his appointment. In early 1991 Cavallo entered office again as Economy Minister; when he was removed in 1996, he had become Argentina's longest-running economic official, and he had led the country through difficult reforms and into a period of economic recovery. Cavallo's experience is evidence of the difficulties involved in

linking credentials to policymaking competency. Because economic conditions in low- and middle-income countries are by nature highly unsettled, it becomes extremely difficult to predict how well a policymaker will be able to handle the challenges that she confronts.

It is hard to predict success even in settings in which information is plentiful and uncertainty is low. Professional football – which has been a surprisingly rich source of illustrative examples in the study of International Relations<sup>9</sup> – gives us the “quarterback problem.”<sup>10</sup> Scouts and coaches of teams in the National Football League, who have almost unlimited resources and access to minute details on each player’s physical characteristics and performance record, have found it nearly impossible to predict the success of quarterbacks in the league. Many quarterbacks that were sure bets coming out of their college experience turn out to be busts once they meet competition at the professional level. Professional football teams cannot accurately use the massive amount of information at hand to predict the capabilities of their most important players. While football and economic policymaking do not share many characteristics, the “quarterback problem” belies the assumption that the IMF is able to use credentials to accurately assess the relative competence of top economic officials that are sitting across the negotiating table.

Instead, I think it is more accurate to argue that the Fund *perceives* that fellow neoliberals are more competent policymakers.<sup>11</sup> This claim is perfectly compatible

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<sup>9</sup> Kirshner 2000.

<sup>10</sup> The term comes from Malcolm Gladwell, who uses the example of quarterbacks to demonstrate that “there are certain jobs where almost nothing you can learn about candidates before they start predicts how they’ll do once they’re hired.” The performance of teachers is also very difficult to predict based on observed characteristics: according to the research cited by Gladwell, “test scores, graduate degrees, and certifications—as much as they appear related to teaching prowess—turn out to be about as useful in predicting success as having a quarterback throw footballs into a bunch of garbage cans.” Malcolm Gladwell, “Most Likely to Succeed,” *The New Yorker*, December 15, 2008.

<sup>11</sup> Returning to the realm of sports, Gladwell (2008) arrives at a similar argument: “there is nothing like being an N.F.L. quarterback except being an N.F.L. quarterback. A prediction, in a field where prediction is not possible, is no more than a prejudice.”

with the ideational explanation I advance in the dissertation. Since it is not possible, in my view, to predict *ex ante* whether an individual will make a successful or unsuccessful finance minister or central banker, the IMF's staff members have to rely on their beliefs about the nature of economic competence and which actors are likely to have it.

### **Lessons for Research on International Institutions**

The most obvious implication of the findings reported in the dissertation is that closer investigation of the interests of international organizations offers empirical payoffs. For many mainstream scholars in International Relations, it does not make sense to spend time investigating the sources of the IMF's interests. For realists, international institutions like the Fund do the bidding of their powerful members.<sup>12</sup> In the so-called rational design approach, the behavior of international institutions is shaped by the institutional features determined by important member states. The difference between the two approaches is that the rational design proponents have a more capacious view of state interests: states care about solving collective problems that lead to suboptimal outcomes (in addition to worrying about their relative power and security).<sup>13</sup> Many scholars that look within the institution for clues about the Fund's behavior assume that bureaucrats rationally respond to incentives for aggrandizement, even if these actions by individual staff members generate perverse behaviors by the institution as a whole.

Barnett and Finnemore argued that "scholars of IOs [international organizations] need to recognize that there is variation in IO interests and that to

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<sup>12</sup> Mearsheimer 1994; on the IMF specifically, see Dreher and Jensen 2007; Stone 2002, 2004, 2008; Thacker 1999.

<sup>13</sup> Koremenos, Lipson, and Snidal summarize this approach to the study of international institutions: "our basic strategy is to treat institutions as rational, negotiated responses to the problems international actors face" (2001: 768).

understand that variation requires unpacking the international organization.”<sup>14</sup> The research presented in the previous pages illustrates the power of their claim. We should not simply assume that the institution responds strategically to obvious material incentives. Peering into the institution to see how it actually works revealed an organization that is driven by principled beliefs more than the pursuit of material interests. The nature of the institution’s work explains why materialist explanations miss much of the story: powerful states have delegated significant autonomy to the Fund to solve difficult problems experienced by low- and middle-income countries. The purpose of the Fund is not given by external environment; it is up to the institution’s officials to interpret the nature of the problems and to determine which tools can solve the problems.

My theoretical approach in the dissertation dovetails with recent research that treats the international financial institutions as social actors that are shaped by distinct institutional cultures.<sup>15</sup> The common thread in this line of research is that the Bank’s and the Fund’s activities are to a large extent the product of the informal rules, norms, and ideas that constitute the cultural milieu of each institution. As Catherine Weaver notes in her study of the World Bank, these social elements “provide staff with a certainty about missions that allows them to pursue tasks with sustained efficiency in the face of environmental uncertainty.”<sup>16</sup>

This research and the work that emphasizes the rational design of institutions agree on one key point: states find it useful to delegate authority to international institutions to manage difficult challenges in world politics. Where the two streams part is over the issue of whether the key variables that shape how institutions carry out

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<sup>14</sup> Barnett and Finnemore 2004: 4.

<sup>15</sup> See Abdelal 2007 on the IMF’s push for capital account liberalization; Barnett and Finnemore 2004 on the evolution of IMF conditionality more generally; Weaver 2008 on hypocrisy in the World Bank’s good governance and anti-corruption agenda.

<sup>16</sup> Weaver 2008: 28.

their mandates are located in the formal design of the organization or in the social processes that enable individual staff members to make sense of their environment. I am not disputing that the architecture of the Fund – the legal relationship between the staff and management and Executive Directors, the weighted voting system, the division of the institution into regional subunits, the way that the institution is financed and selects its top officials, etc. – is important. It clearly is. But my research does correct the notion that these structural elements are *all* that we need to know about the Fund in order to understand its lending behavior.

Do these findings offer lessons for other international institutions? The purpose of the dissertation has been to understand the behavior of a specific organization, but my findings suggest, more generally, that the self-defined social purpose of international organizations is at least as important as the marching orders given by powerful member states. However, there are some clear scope conditions for the theory. The International Monetary Fund is unique in several ways, and these unusual aspects of the institution limit the degree to which the theoretical predictions can be applied to other international organizations.

There are three aspects of the Fund that make an ideational explanation particularly useful in this setting. First, the complexity of the task at hand – managing global financial stability – means that states have been willing to delegate a particularly large degree of authority to the institution.<sup>17</sup> Related to the complexity of the external environment is the peculiar relationship between the Fund's staff and management on the one hand, and the supposed representatives of state interests within the institution, the Executive Directors, on the other. The capacity for interested member governments to influence the content of IMF programs through official channels is limited, because the staff members have significant informational

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<sup>17</sup> Barnett and Finnemore 2004.

advantages. By the time the proposal is brought before the Executive Board, the content of the agreement is for all intents and purposes decided. Some suggest that government officials use informal means to lean on staff and management, but, aside from a handful of high-profile cases of meddling by Treasury officials, there is no evidence that the IMF consistently favors countries that score highly on the measures of U.S. strategic interest used in the dissertation.

The third unique characteristic of the Fund is the degree of ideational coherence within the institution. The International Monetary Fund is composed of around 2,600 staff members, the majority of which are US-trained macroeconomists; in Ngaire Woods' description, "the institution prides itself on being cohesive, consistent, and tightly disciplined."<sup>18</sup> At the upper reaches of the institution, the profile of top officials is remarkably similar. The fact that the Fund is a cohesive, tight-knight organization enables the Fund to act independently of sovereign states in the international system that might seek to use the institution.<sup>19</sup> The contrasts between the Fund and less formal organizations, such as the World Trade Organization and the Bank for International Settlements, are stark.<sup>20</sup> The other international institutions are more frequently viewed as forums in which states interact rather than as actors in their own right.

While there are limits to the distances that the theoretical insights of the dissertation can travel, the research points to other productive avenues for future work

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<sup>18</sup> Woods 2006: 7.

<sup>19</sup> A comment by Koremenos et al reinforces the notion that the degree of the IMF's independence is unusual: "states rarely allow international institutions to become significant autonomous actors" (2001: 762).

<sup>20</sup> The IMF is unique even by comparison to its sister institution, the World Bank. The Bank is a much larger and less organized institution, with operations spanning the globe and a less rigidly enforced chain of command (Woods 2006: 7). Economists obviously play an important role in shaping the World Bank's agenda, but the institution includes many non-economists in important positions. The consistency of the ideas held by Fund officials, from the division chiefs to the newly minted PhDs in the Economist Program (EP), marks the IMF as an international institution without a clear parallel in the international system.

in International Political Economy. I developed a research design that allowed me to rigorously test the observable implications that emerged from a theoretical framework organized around shared ideas. It has been difficult to test ideational arguments using quantitative methods. Relying on the socialization processes that are likely to transmit ideas to individuals gives scholars a way to measure the presence of ideas across a large number of cases.<sup>21</sup> The measure is admittedly noisy, but it has a very desirable attribute: it allowed me to test my explanation against a number of alternatives on relatively large samples in chapters 3 and 4. In this way I could address the “how much do ideas *really* matter?” critique that is commonly aimed at ideational research in IPE.

The findings also suggest a novel mechanism linking the IMF to the diffusion of neoliberalism in the developing world. As reviewed by Simmons, Dobbin, and Garrett, research in International Relations on the diffusion of economic liberalization focuses on four top-down mechanisms: coercion by powerful states and international institutions; competition among governments for foreign investment; learning by governments from successful (and unsuccessful) exemplars; and mimesis by states that conform to global standards of institutional forms and behavior.<sup>22</sup> The mechanism that I propose is rooted in domestic political processes. By raising the costs that leaders expect to pay for the removal of IMF-friendly officials, the presence of the Fund generates clear incentives for leaders to keep neoliberals in power. Most of the research on the role of international organizations in diffusion fixates on IOs as coercive instruments or teachers of norms; the findings in chapter 4 imply that the

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<sup>21</sup> Other examples of research that uses biographical data, including educational background, to measure ideas include Busby and Monten 2008; Chwioroth 2007a; Kogut and Macpherson 2008; Spilimbergo 2009.

<sup>22</sup> Simmons, Dobbin, and Garrett (2008) provide an exhaustive summary of the state of research on international diffusion processes.

transmission of neoliberal ideas from the IMF is mediated by domestic politics.<sup>23</sup>

Finally, the findings can be viewed as evidence that the recent rediscovery of Knightian uncertainty in IPE yields new insights into the behavior of international institutions.<sup>24</sup> Uncertainty, as conceptualized by the economist Frank Knight, is a distinct state of the world in which probabilities cannot be accurately calculated and attached to potential outcomes. Not all situations that agents in world politics find themselves in are characterized by strong uncertainty. Many settings involve predictable patterns of relations in which information may be limited (or unequally distributed), but the underlying state of the world is known with relative certainty. Nonetheless, the return of the concept of Knightian uncertainty to the study of political economy is a useful reminder that some situations are so unpredictable that “agents are unsure as to what their interests actually are, let alone how to realize them.”<sup>25</sup>

The distinction between risk and uncertainty has “empirically observable implications.”<sup>26</sup> When uncertainty reigns, agents cannot rely on their material interests to make decisions. If all possible paths look equally risky, rational decision makers are paralyzed. Instead, agents “rely on social devices to reduce uncertainty.”<sup>27</sup> In chapter 2 I argued that in the absence of institutions that enable organizations to convert underlying uncertainty into calculable risk, social and political relations become an important part of the decision making process. Future research in International

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<sup>23</sup> My argument bears resemblance to Way’s (2005) domestic political explanation for the diffusion of capital account liberalization, which focuses on the political security of leaders.

<sup>24</sup> For discussions of Knightian uncertainty by economic sociologists, see Bandelj 2008; Beckert 1996, 2002; DiMaggio 2002; Guseva and Rona-Tas 2001; in comparative and international political economy, see Blyth 2002; Woll 2008. Denzau and North 1994 discuss uncertainty from the perspective of microeconomics.

<sup>25</sup> Blyth 2002: 9.

<sup>26</sup> Woll 2008: 11.

<sup>27</sup> Woll 2008: 12. For example, in a study of Western firms’ decisions to invest in post-Communist Europe, Nina Bandelj documents how “in conditions of high uncertainty, foreign investors and postsocialist hosts act practically: they rely on social and political clues, such as following opportunities in countries where they already have contacts, pursuing options that they hear about from their networks, and judging prospects based on the political commitments by the government in power, even though economic conditions may not be very promising” (2008: 98).



Political Economy may benefit from closer attention to the social devices that enable agents – individuals, firms, organizations, and states – to make decisions when rational calculations are not possible.

### **Implications for the Future of the Fund**

My findings have implications for the ongoing debate about the Fund's role in the world economy. In 1982 and 1997 the world needed a well-functioning multilateral financial institution; in 2009 the IMF is again central to the effort to restore global economic stability. One of the consequences of the global financial crisis that erupted in September 2008 has been the reemergence of the Fund as a central player in the world economy after a period in which steady growth of economic output, the massive buildup of reserves in a number of countries, and the restoration of capital flows after the crises of the late 1990s severely curtailed the demand for IMF loans. In the current economic climate, creditor states either cannot afford to offer bailouts or are unwilling to take the risks of deploying capital to needy countries. The financial crisis has for the foreseeable future destroyed the possibility of individual states mobilizing resources to assist countries on the perch of collapse; as former U.S. Deputy Treasury Secretary Roger Altman notes, "even in the event of economic crises in strategically important areas, such as Pakistan, major economic assistance from the United States or key European nations is unlikely. Instead, the IMF will have to be the primary intervenor."<sup>28</sup>

It is only a slight exaggeration to note that there are about as many proposals for the reform of the IMF as there are economists working in think tanks in Washington.<sup>29</sup> Two issues, however, are most prominent. The first involves expanding

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<sup>28</sup> Altman 2009: 10. In chapter 2 (footnote 65) I discuss China's unwillingness to make a loan to Pakistan in November 2008, despite the massive reserves held by the Chinese government and security risks involved in an economic meltdown in Pakistan.

<sup>29</sup> Leadership selection is one common target for reform. Traditionally the head of the Fund is selected from a Western European country. Russia's advocacy on behalf of Josef Tosovsky, the former Czech

the IMF's resources, which (until very recently) amounted to around \$250 billion. Compared to the size of international capital markets the Fund's resources are meager. One proposed change is for member states to up their contributions to the institution. Indeed, after the April 2009 G20 meeting, the institution's large member states have committed to replenish the IMF's coffers to the tune of \$1 trillion; delivering on this promise would do much to allay concerns about the Fund's financial firepower.<sup>30</sup>

The other plank for reforming the institution to restore its legitimacy revolves around the distribution of voting rights. Proponents argue that redistributing votes in the Executive Board to better reflect the changing distribution of international economic power – China, India, and Brazil gain, and the small European states lose – would imbue a new sense of fairness to the Fund.<sup>31</sup>

My research suggests that these reforms, useful as they may be, will not result in significant changes in the IMF's lending behavior. Lasting change depends on a reorientation of the IMF's purpose – and this hinges on a shift in the economic beliefs held by top management and staff.

There is widespread recognition that the international financial institutions are in the middle of a crisis of legitimacy. Many elites in the developing world no longer regard the IMF's staff members as "experts to whom they can turn for practical, impartial advice. They experience the IMF as an institution which sets down terms and

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central banker, as a competitor against the French choice (and eventually selection), Dominique Strauss-Kahn, touched off a bitter debate about the opaque process by which the Executive Director is appointed. Strengthening the Executive Board is another perennial proposal for the reform of the institution (see Mussa 2002: 70; Woods 2006: 204-05). Some have proposed that the Fund scale back conditionality to target only "macro-critical" areas of borrowers' economies; still others concentrate on reforming the way in which the IMF is financed.

<sup>30</sup> An alternative way of expanding the Fund's resources comes from the financial historian Harold James, who proposed that the IMF begin to manage some of the massive pool of global savings. In James's view, if the Fund "oversaw a significant part of the reserves of countries with surpluses, it would be in a strong position to take bets against speculators or stabilize markets when prices moved in a disorderly way" (2009: 166).

<sup>31</sup> Eswar Prasad's proposal to auction voting rights to the highest bidding governments was intended to solve both funding and representation problems at once. "Getting the IMF's Groove Back," *Financial Times*, October 30, 2008.

demands responses from them.”<sup>32</sup> The Fund and, to a lesser extent, the World Bank continue to bring their traditional views on economic policy to bear on problems that are unprecedented and, in the view of many observers, require more creative thinking than the IFIs have been willing (or able) to provide.

In the opening chapter of the dissertation I noted the former South African finance minister Trevor Manuel’s comments about the “sameness” of the IMF’s staff members (“they go to the same Ivy League Universities and get their PhDs”).<sup>33</sup> This view is widespread in the developing world.<sup>34</sup> The IMF’s legitimacy problem runs deeper than dissatisfaction about voting shares or lack of resources. An institution has legitimacy when agents believe that the institution’s rules and norms should be followed.<sup>35</sup> In many parts of the developing world policymakers no longer believe that the IMF provides fair and efficacious policy guidance. The view that conditionality has been inconsistently applied and inconsistently enforced has merit, as the results from the analysis in this dissertation demonstrate.

In my view, the IMF faces a tripartite choice. It can attempt to reduce uncertainty by becoming much more selective in its approach to lending.<sup>36</sup> It can become an automatic disbursement mechanism of the kind envisioned by Keynes. In both scenarios conditionality would become superfluous.

In the third scenario, the IMF could use conditionality more effectively by involving analysts that are less committed to a set of neoliberal economic beliefs and

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<sup>32</sup> Woods 2006: 188.

<sup>33</sup> Quoted in Quentin Peel, “Political will for meaningful reform of IMF is still lacking,” *Financial Times*, March 17, 2009: pg. 2.

<sup>34</sup> For example, Artis Kampers, Latvia’s economic minister, expressed frustration with the Fund’s suspension of a lending program: “representatives sitting in Washington and educated at Yale do not fully understand what is going on in Latvia.” Quoted in Andrew Ward, “Latvia Warns IMF over Delayed Aid,” *Financial Times* June 22, 2009.

<sup>35</sup> Hurd 1999.

<sup>36</sup> There is evidence that the IMF is moving in this direction. It has designed a new lending facility for “pre-qualified” countries with a demonstrated track record of good macroeconomic management. Mexico is the first to draw on this new lending facility.

more concerned with how policies are actually made in developing countries. The Fund may need to trade off some degree of control and influence for a more effective and legitimate approach. Rather than focus on empowering a coterie of top-level economic officials to try to create credible reform programs, the institution would do better to take local institutions, culture, and public support into account. Rather than attempting to induce ownership of lending programs, the IMF should explore the political roots of ownership.<sup>37</sup>

Critics might respond that this would put the Fund in the undesirable position of having to make “inherently more political decisions about to whom they should lend.”<sup>38</sup> This misses the point: by nature of its mandate, the IMF has no choice but to make political choices. Since the 1980s the IMF has consistently chosen to focus on a small group of policymaking elites in borrowing countries. Its lending activities show a clear political preference for policymakers that share the neoliberal beliefs held by the Fund’s economist. There is not much evidence that this strategy has been particularly successful.

The reform proposals neglect this issue by focusing almost exclusively on the formal architecture of the institution.<sup>39</sup> The central lesson of the dissertation for the reform of the Fund is that ideas are as much a part of the life of the organization as the rules that govern membership and voting. On the one hand, the dissertation concludes on a pessimistic note for observers who think that the Fund in its current form is ineffective: dominant ideas such as neoliberalism are slow to be replaced, and the pattern of behavior pursued by the IMF in its capacity as a lender to needy countries is

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<sup>37</sup> Ngaire Woods also makes the point that the effectiveness of the institution is reduced by lack of attention to political and cultural factors in borrowing countries: “the Fund and Bank are ill-served by staff who have not had the opportunity to acquire deep knowledge of the particular circumstances within a country or of the culture of recipients and beneficiaries” (2006: 207).

<sup>38</sup> Woods 2006: 190.

<sup>39</sup> For example, Mussa 2002: 69-71.

not likely to change until new ideas circulate within the institution. On the other hand, my argument implies that the IMF's behavior is not solely determined by long-standing institutional rules that are potentially even more resistant to change than ideas.

There is no magic formula for the reform of the institution, just as there is no variable that explains all of the variation in the Fund's lending activities. But a view of the IMF as a purposive actor that is shaped, in part, by ideas is a more hopeful and, if the evidence in the dissertation is at all convincing, more realistic portrayal than a view of the Fund as handmaiden to powerful interests.

## APPENDIX A

### Description of Variables and Data Sources in Chapter 2

#### Dependent variables<sup>1</sup>

***Number of binding conditions***: the total number of performance criteria in each high-conditionality agreement.

***Number of structural binding conditions***: the total number of structural performance criteria (binding conditions that specify major economic policy changes rather than just meeting a macroeconomic target) in each high-conditionality agreement.

***Log of size of loan/quota***: the natural log of the ratio of total size of loan disbursement (in millions of SDRs) to a country's quota (in millions of SDRs).

***Waivers***: takes a value of 1 if a waiver is approved by the Executive Board in a year in which a country has an active IMF program.

***Multiple waivers***: takes a value of 1 if multiple waivers is approved in a single decision by the Executive Board in a year in which a country has an active IMF program.

#### Independent variables

***Time counter***: a counter variable that counts the number of years since 1980.

***Use of IMF credit/quota***: ratio of total use of IMF credit and administrative resources (in billions of SDRs) to the total IMF quota (billions of SDRs).<sup>2</sup>

***T-bill rate***: the nominal US Treasury bill rate, which is a benchmark for world interest rates.<sup>3</sup>

***Reserves/debt***: Ratio of international reserves to total external debt.<sup>4</sup>

***GDP per capita growth***: Annual growth rate of GDP per capita.<sup>5</sup>

***Log of GDP***: the natural log of gross domestic product.<sup>6</sup>

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<sup>1</sup> The dependent variables are constructed from documents obtained from the IMF's archives.

<sup>2</sup> Dreher and Vaubel 2004.

<sup>3</sup> Dreher and Vaubel 2004.

<sup>4</sup> World Bank, *Global Development Finance* CD-ROM (2003).

<sup>5</sup> World Bank, *World Development Indicators* CD-ROM (2004).

<sup>6</sup> World Bank, *World Development Indicators* CD-ROM (2004).

**Debt/GNI:** Ratio of total external debt to gross national income.<sup>7</sup>

**Government Consumption:** government consumption as a percentage of GDP.<sup>8</sup>

**Inflation:** the annual rate of consumer price inflation.<sup>9</sup>

**Regime type:** Polity2 measure, taken from the Polity IV project. The Polity2 democracy score computed by subtracting a measure of autocracy, AUTOC, from a measure of democracy, DEMOC; the score ranges from -10 (least democratic) to +10 (most democratic). The AUTOC and DEMOC scores are indexes of scores on different institutional factors (such as the competitiveness and openness of executive recruitment, constraints on the executive recruitment, competitiveness of political participation, etc.).<sup>10</sup>

**Instability:** variable takes the value of 1 if the Polity2 regime type indicator changes (in either direction) by at least three points during a three year period.<sup>11</sup>

**Left government:** The Database of Political Institutions records the political party of the chief of government and the largest party in government. The DPI discerned the ideological orientation of parties by considering party names (defined as parties with social democrat, communist, socialist, or left-wing in the name); if the ideology of a party was not obvious, the coding team relied on regional and country-specific publications that assess party orientations. DPI's coding was cross-checked with Inglehart and Huber's (1995) survey of party experts. I code the variable as "1" when either the chief or the largest party in the governing coalition is recorded as a Left party.<sup>12</sup>

**Pre-Election:** an indicator that takes a value of one if a legislative or executive election is scheduled in the next six months. Since political business cycles should only be present in competitive elections, I only included elections with multiple candidates/parties (denoted by a score of 5 or above in the Database of Political Institution's electoral competitiveness index).<sup>13</sup>

**Post-Election:** an indicator for elections that occurred in the previous six months. Since political business cycles should only be present in competitive elections, I only

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<sup>7</sup> World Bank, *Global Development Finance* CD-ROM (2003).

<sup>8</sup> World Bank, *World Development Indicators* CD-ROM (2004).

<sup>9</sup> World Bank, *World Development Indicators* CD-ROM (2004).

<sup>10</sup> Monty Marshall and Keith Jagers, "Polity IV Project: Political Regime Characteristics and Regime Transitions, 1800 – 2002," Center for International Development and Conflict Management (CIDCM), <http://www.cidcm.umd.edu/inscr/polity>.

<sup>11</sup> Fearon and Laitin (2003).

<sup>12</sup> Philip Keefer, *DPI2006 Database of Political Institutions* (December 2007).

<sup>13</sup> Philip Keefer, *DPI2006 Database of Political Institutions* (December 2007).

included elections with multiple candidates/parties (denoted by a score of 5 or above in the Database of Political Institution's electoral competitiveness index).<sup>14</sup>

**Veto players:** a count of the total number of veto players in a political system. In countries where legislatures are not competitively elected, this takes a value of 1, indicating that only the executive wields a check.<sup>15</sup>

**Openness:** an update of the Sachs and Warner openness indicator, the measure takes a value of 1 in periods of openness and 0 if the country is closed. A country is coded as closed if any of the following conditions hold: (1) the average unweighted tariff rate > 40%; (2) the average core non-tariff barrier frequency on capital goods and intermediaries > 40%; (3) the annual black market premium > 20%; (4) the country has a functioning marketing board for a major export good; (5) a socialist economic system.<sup>16</sup>

**Debt rescheduling:** takes the value of 1 if a Paris Club debt rescheduling agreement was concluded within six months (on either end) of the date of approval of an IMF agreement.<sup>17</sup>

**US military aid:** the annual amount of US military assistance. Military assistance consists of grants and credits for military purchases, funding for the training of foreign troops, and transfers of military equipment under a variety of US aid programs.<sup>18</sup>

**U.S. Affinity:** a measure of dyadic interest similarity built from roll-call votes within the UN General Assembly. The variable ranges from -1 to 1 with higher values indicating closer voting profiles between dyads. The measure employed in the analysis looks at similarity of voting with the United States.<sup>19</sup>

**Proportion Neoliberal:** measures the proportion of the economic policymaking team that shares neoliberal economic beliefs. The economic policymaking team is composed of the executive and the main economic authorities in a country, as indicated by the signatories of IMF agreements. Policymakers are coded as neoliberal if they (1) earned an MA or higher at a top-ranked American economics department or (2) have significant experience with the IMF or World Bank.<sup>20</sup>

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<sup>14</sup> Philip Keefer, *DPI2006 Database of Political Institutions* (December 2007).

<sup>15</sup> Philip Keefer, *DPI2006 Database of Political Institutions* (December 2007).

<sup>16</sup> Wacziarg and Welch 2003, 2008. Expansion and improvement of trade openness measure developed in Sachs and Warner 1995.

<sup>17</sup> <http://www.clubdeparis.org/sections/pays>

<sup>18</sup> US Agency for International Development, US Overseas Loans and Grants (known as the *Greenbook*)

<sup>19</sup> Taken from Gartzke 2006.

<sup>20</sup> I relied on several different sources to gather background information for policymaker, including Proquest's *Digital Dissertations* database, Gale's *Biography Resource Center*, International *Who's Who*, *The Statesman's Yearbook*, *Who's Who in International Organizations*, and numerous country- and region-specific editions of *Who's Who*. Some finance ministries and central banks provide biographical information on their websites. I also obtained digital records of the *American Economic*



Table A.1: Summary Stats. for Conditionality Data (Based on Sample in Table 3.3)

<i>Variable</i>	Observations	Mean	Std. Dev.	Minimum	Maximum
No. of perf. criteria	423	12.38	2.89	6	30
No. of struc. perf. criteria	423	1.51	2.25	0	21
Use of IMF credit/quota	423	0.30	0.07	0.19	0.46
U.S. Treasury Bill Rate	423	6.65	2.62	3	14.1
Counter	423	10.78	5.81	0	20
Reserves/debt	423	13.05	25.64	-0.17	291.39
Debt/GNI	423	91.57	87.54	0.49	1087.76
Per Capita GDP Growth	423	-0.27	5.53	-30.9	16.54
Log (GDP)	423	22.75	1.60	19	27.34
Proportion Neoliberal	423	0.10	0.29	0	1
Regime type	423	0.27	6.84	-9	10
Veto Players	423	2.40	1.62	1	9
Pre-Election Period	423	0.09	0.29	0	1
Left Government	423	0.26	0.44	0	1
Debt Rescheduling	423	0.45	0.50	0	1
Openness	423	0.45	0.50	0	1
U.S. Affinity	423	0.06	0.27	-0.30	1
U.S. military aid	423	18,708.5	143,913.7	0	1,654,229

Table A.2: Summary Statistics for Loan Size Dataset (Based on Sample in Table 3.6)

<i>Variable</i>	Observations	Mean	Std. Dev.	Minimum	Maximum
Size Quota (logged)	445	4.22	0.75	2.65	7.31
Use of IMF credit/quota	445	0.30	0.07	0.19	0.46
U.S. Treasury Bill Rate	445	6.66	2.63	3	14.1
Reserves/debt	445	13.14	25.26	-0.17	291.39
Debt/GNI	445	88.76	86.07	0.49	1087.76
Per Cap. GDP Growth	445	-0.19	5.39	-30.9	16.54
Log (GDP)	445	22.78	1.60	19	27.34
Proportion Neoliberal	445	0.10	0.18	0	1
Regime type	445	0.33	6.83	-9	10
Post-Election Period	445	0.07	0.25	0	1
Left Government	445	0.27	0.45	0	1
Debt Rescheduling	445	0.44	0.50	0	1
U.S. Affinity	445	0.06	0.28	-0.31	1
U.S. military aid	445	17,796	140,360.2	0	1,654,229

*Review's* membership survey. Because the background information was generated from a wide range of sources, I made sure to cross-check the coding against multiple sources to ensure consistency.

Table A.3: Summary Statistics for Waivers Dataset (Based on Sample in Table 3.8)

<i>Variable</i>	Observations	Mean	Std. Dev.	Minimum	Maximum
Waivers	697	0.19	0.39	0	1
Multiple Waivers	697	0.09	0.28	0	1
Use of IMF credit/quota	697	0.29	0.07	0.19	0.42
U.S. Treasury Bill Rate	697	6.86	2.74	3	14.1
Reserves/debt	697	12.41	23.41	-0.17	291.40
Debt/GNI	697	91.22	97.43	0.49	1087.76
Per Cap. GDP Growth	697	-0.16	5.29	-30.9	16.54
Log (GDP)	697	22.80	1.58	19	27.17
Inflation	697	83.89	581.53	-14.94	11,174.9
Gov't Consumption	697	14.13	5.81	2.98	54.51
Proportion Neoliberal	697	0.12	0.20	0	1
Regime Type	697	-0.05	6.86	-9	10
Instability	697	0.21	0.41	0	1
Election	697	0.20	0.40	0	1
Left Government	697	0.31	0.46	0	1
U.S. Affinity	697	0.04	0.26	-0.31	1
U.S. military aid	697	23,194.4	158,449.2	0	1,678,010
Debt rescheduling	697	0.26	0.44	0	1
Spline_1	697	-234.63	595.28	-4096	0
Spline_2	697	-81.82	159.18	-840	0
Spline_3	697	-115.55	245.06	-1344	0

## APPENDIX B

### Robustness Checks for Influential Observations

I rely on deviance residuals to identify outlying observations that might bias the results reported in chapter 3.<sup>1</sup> The residuals are calculated from the comprehensive models reported in the body of the chapter (the specifications in tables 3.3, 3.6, and 3.8 with each of the covariates included). Observations that have large deviance residuals are poorly explained by the statistical model; for example, large positive (negative) residuals calculated from the results in table 3.3 indicate agreements that have many more (fewer) binding conditions than predicted based on the values of the explanatory variables. As a rule of thumb, a deviance residual on an observation that is greater than the absolute value of 2 constitutes an outlier and is worth investigating. It is important to note that there is no widely accepted cutoff point above which an observation can be considered unusual or potentially influential. Visualizations of the distribution of the residuals provide the most effective way to identify potentially problematic data points.<sup>2</sup> The plots in the following pages draw attention to some obvious outliers. I focus here on whether the results stand up when the outlying observations are excluded, rather than devoting attention to exploring the reasons for the observation's poor fit.

I start by plotting the residual for each observation against that observation's predicted outcome value (the predicted number of conditions, size of loan, and probability of receiving a waiver). In figure B.1 I track the smoothed deviance

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<sup>1</sup> Deviance residuals resemble the raw residuals obtained in linear regression; raw (or natural) residuals are simply the difference between the fitted and observed values of  $Y$ . In large samples the raw residuals in OLS regressions are symmetrically distributed around zero with constant variance, but in count data the residuals, even in large samples, are heteroskedastic and asymmetrically distributed. Deviance residuals are normalized and are roughly symmetric, thus paralleling raw residuals in linear regression, and are an effective way to diagnose problems in maximum likelihood models of the type used to examine the determinants of the number of conditions and the presence of waivers (see Cameron and Trivedi 1998: 141-42; Box-Steffensmeier and Jones 2003: 122-23).

<sup>2</sup> Jonathan Fox, in a treatise on regression diagnostics, argues that "numerical criteria are no substitute for graphical examination of the residuals" (1991: 33).

residuals (on the y-axis) against the predicted number of binding conditions based on the Poisson model reported in table 3.3. To facilitate the identification of specific IMF agreements, each observation is listed by country name in the plots.

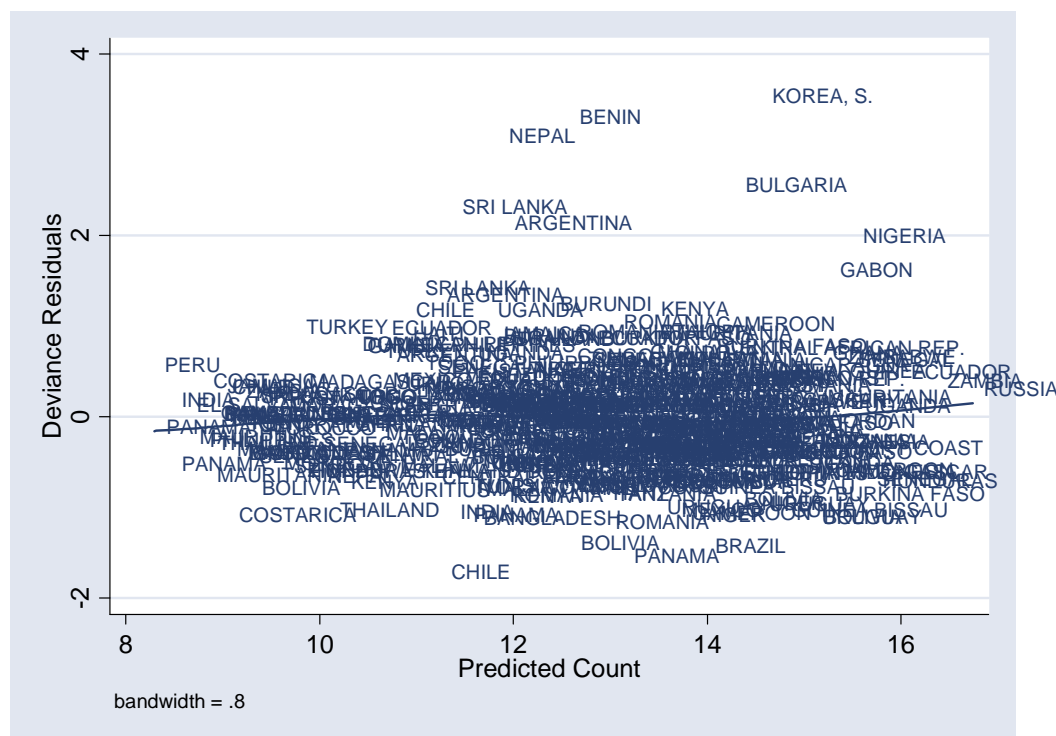


Figure B.1: Smoothed Residuals vs. Predicted Number of Binding Conditions

Most of the residuals are distributed fairly evenly around 0, but a handful of agreements that contain more conditions than expected appear in the top quarter of the plot. Perhaps by including these unusual observations I obtain misleading estimates about the effect of my key explanatory variable, *proportion neoliberal*. To get a better sense of which IMF agreements I should be concerned about, I plotted the deviance residuals against the year in which an agreement was signed.

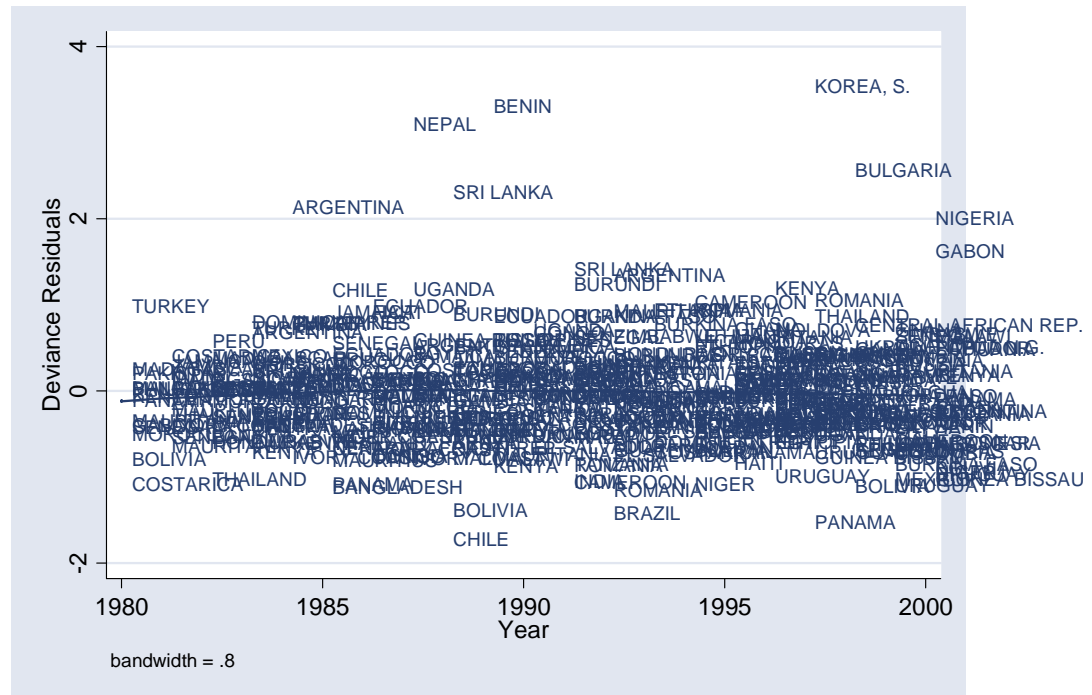


Figure B.2: Smoothed Residuals Tracked over Time, Binding Conditions Data

Six agreements, starting with Argentina's late 1984 standby agreement and ending with unusually detailed programs signed by South Korea in December 1997 and Bulgaria in September 1998, stand out. In the reanalysis of the impact of *proportion neoliberal* on the total number of binding conditions I exclude the six outlying agreements.

I follow the same strategy to identify outliers in the data on the number of structural binding conditions. Figure B.3 plots the smoothed deviance residuals calculated from the negative binomial model in table 3.3 against the predicted number of structural conditions.

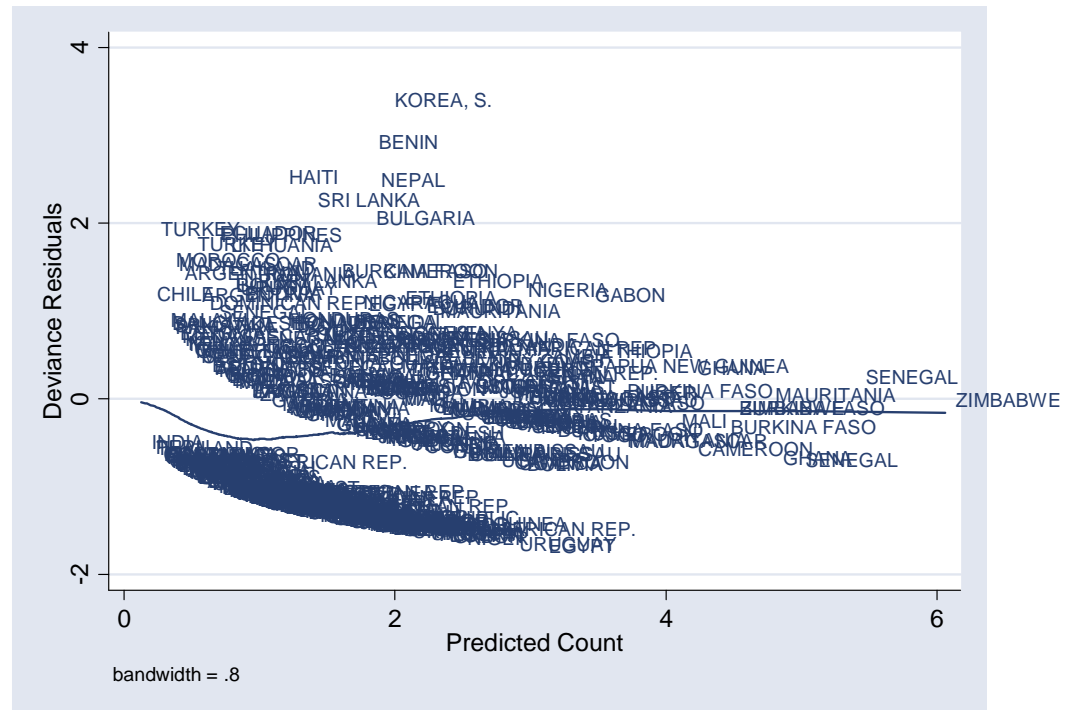
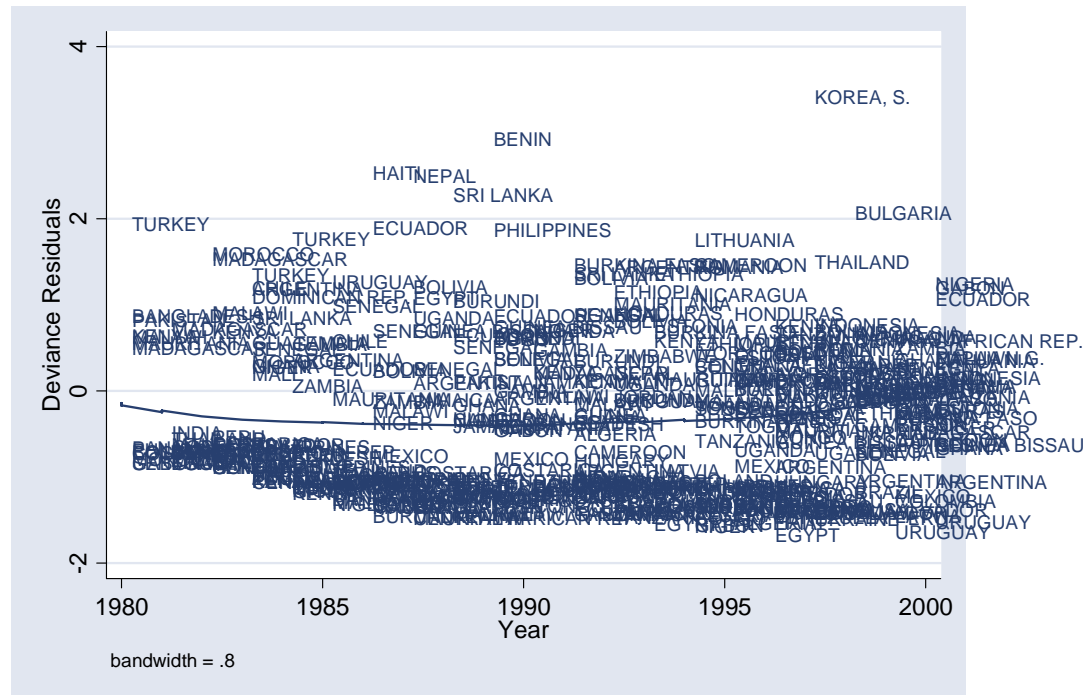


Figure B.3: Smoothed Residuals vs. Predicted No. Binding Structural Conditions

Figure B.3 draws attention to a cluster of unusual observations: each are predicted to have around 2 structural conditions, yet the actual agreements contain many more structural conditions than expected. Five of the countries are usual suspects – agreements from Benin, Sri Lanka, Nepal, Bulgaria, and Korea were identified in the previous figures as unusually detailed agreements that are worthy of a closer look. In addition, according to the figure, an agreement signed with Haiti appears to be an outlier. To see which specific agreements are unusual in terms of the number of structural conditions, I plot the deviance residuals against time in figure B.4. I use the plot to identify the six outliers in the structural conditionality data, which are removed from the subsequent reanalysis.



In table B.1 I reanalyze the data on the total number of binding conditions (column 1) and the number of binding structural conditions (column 2) with the outlying agreements omitted from the analysis. The findings continue to provide support for the central claim in the chapter: borrowing countries with a greater proportion of neoliberal economic policymakers tend to receive programs with fewer conditions. The six observations removed from each specification due to very high deviance residuals do not appear to affect the main conclusions from the data analysis. The coefficient for *proportion neoliberal* in the first column in table B.1 is slightly smaller than the result reported in the comprehensive model with the outliers included, but the size of the effect of the key explanatory variable on the number of structural conditions increases when the outliers are taken out. There is no evidence that the findings in chapter 3 related to the extent of conditionality in IMF loans between 1980 and 2000 are strongly influenced by a small number of extreme observations.

Table B.1: Determinants of Binding Conditions, Outliers Removed

<i>Independent variables</i>	No. performance criteria (1) Poisson	No. struc. perf. criteria (2) Negative binomial
Time Counter	0.018*** (0.003)	0.115*** (0.023)
Use of IMF Credit/Quota <sub>t-1</sub>	0.197 (0.106)	-0.046 (0.850)
U.S. Treasury Bill rate <sub>t-1</sub>	-0.016** (0.005)	-0.039 (0.050)
Reserves/Debt <sub>t-1</sub>	0.0003 (0.0002)	-0.003 (0.003)
Debt/GNI <sub>t-1</sub>	0.0002* (0.00006)	0.0003 (0.0005)
Log GDP <sub>t-1</sub>	0.005 (0.006)	-0.122* (0.055)
GDP Per Capita Growth <sub>t-1</sub>	-0.002 (0.001)	0.008 (0.011)
Proportion Neoliberal	-0.179*** (0.048)	-1.241** (0.410)
Pre-Election Period	-0.018 (0.023)	-0.187 (0.158)
Left Government	0.024 (0.017)	-0.043 (0.145)
Regime Type <sub>t-1</sub>	-0.002 (0.002)	-0.016 (0.018)
Veto Players	0.002 (0.010)	-0.009 (0.075)
U.S. Military Aid <sub>t-1</sub>	3.06x10 <sup>-8</sup> * (1.53x10 <sup>-8</sup> )	4.88x10 <sup>-7</sup> ** (1.64x10 <sup>-7</sup> )
U.S. Affinity <sub>t-1</sub>	-0.052 (0.037)	-0.751** (0.260)
Debt Rescheduling	0.064*** (0.019)	-0.077 (0.112)
Openness <sub>t-1</sub>		-0.198 (0.161)
Constant	2.184*** (0.167)	2.085 (1.275)
No. of observations	417	417
Log likelihood	-960.290	-598.532
Wald $\chi^2$	349.64	90.01
Probability > $\chi^2$	0.0000	0.0000
Standard errors clustered by country in parentheses; outliers removed. *p<10%; **p<5%; ***p<1%		



I follow the same strategy for the models of the size of IMF loans and the issuance of waivers: I start by plotting the deviance residuals against the predicted outcome to identify possible outliers; I then specify the outliers in graphs of residuals against time, and re-analyze the data with the poorly predicted observations omitted.<sup>3</sup>

Figure B.5 displays the plot containing the smoothed residuals compared to the predicted size of IMF loans; figure B.6 shows the distribution of residuals over time. Most of the observations are scattered evenly, but our attention is drawn to two agreements that were much larger than expected: Korea's 1997 standby arrangement and Turkey's agreement from 1999.

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<sup>3</sup> The statistical platform I use in the dissertation (Stata 8.0) cannot calculate deviance residuals following the *xtpcse* command, which produces the Prais-Winsten coefficients with panel-corrected standard errors in table 3.6 in the chapter. In order to obtain the deviance residuals to identify outliers in the loan size data, I estimated a generalized liner model with standard errors clustered on country. The GLM model produces parameter estimates that are very similar to the estimates obtained using the *xtpcse* command that I use to produce the results in table 3.6 in the chapter.

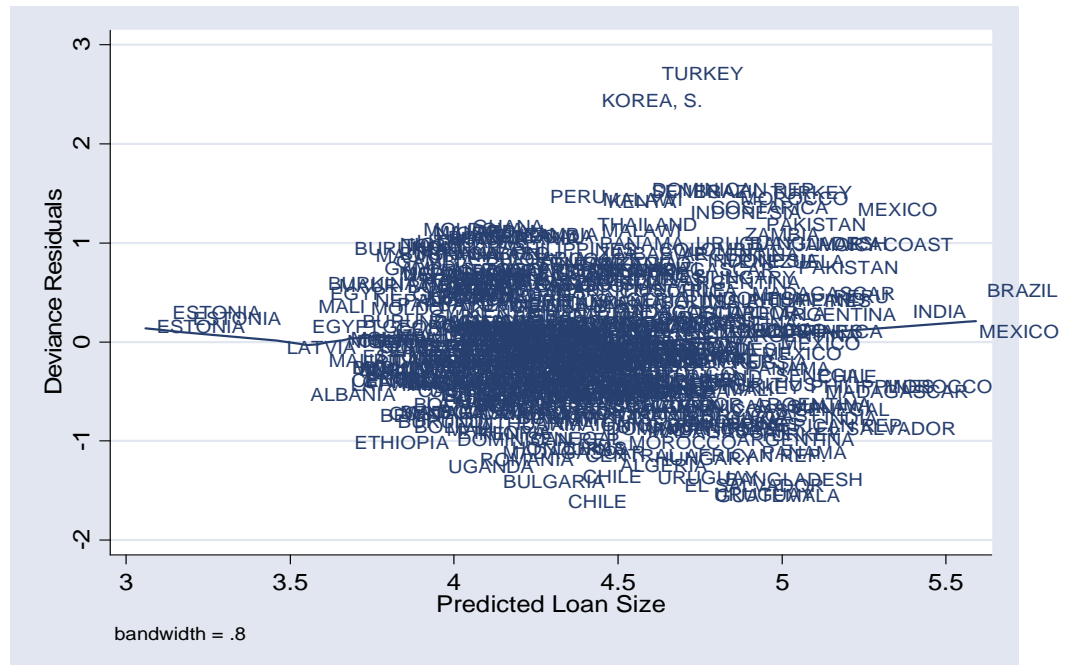


Figure B.5: Smoothed Deviance Residuals vs. Predicted Loan Size (Logged)

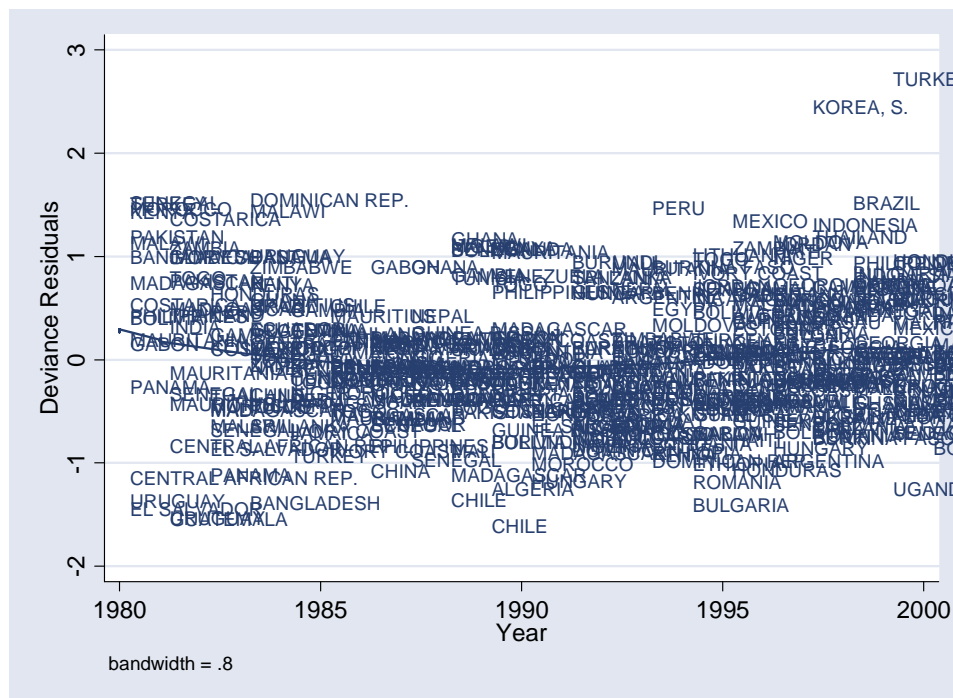


Figure B.6: Deviance Residuals Plotted Over Time, Loan Size Data

Table B.2 explores the fragility of the findings related to the determinants of the logged size of IMF loans when the two extreme observations are excluded from

the analysis. The findings from the chapter stand up; in fact, the size of the coefficient on *proportion neoliberal* is slightly larger when the extraordinarily generous Korean and Turkish loans are removed.

Table B.2: Determinants of Size of IMF Loans, Outliers Removed

<i>Independent variables</i>	Natural log of loan size/quota PCSE, AR(1)
Total Use of IMF Credit/Quota <sub>t-1</sub>	-0.926 (0.586)
U.S. Treasury Bill rate <sub>t-1</sub>	0.105*** (0.015)
Reserves/Debt <sub>t-1</sub>	-0.004*** (0.001)
Debt/GNI <sub>t-1</sub>	0.0005 (0.0004)
Log GDP <sub>t-1</sub>	0.106*** (0.024)
GDP Per Capita Growth <sub>t-1</sub>	-0.011 (0.006)
Proportion Neoliberal	0.439* (0.177)
Post-Election Period	0.354*** (0.103)
Left Government	0.116 (0.063)
Regime Type <sub>t-1</sub>	-0.005 (0.005)
U.S. Military Aid <sub>t-1</sub>	-3.63x10 <sup>-7</sup> *** (1.09x10 <sup>-7</sup> )
U.S. Affinity <sub>t-1</sub>	0.226 (0.150)
Debt rescheduling	0.084 (0.059)
No. of observations	443
R <sup>2</sup>	0.26
Wald $\chi^2$	149.74
Probability > $\chi^2$	0.0000
Results from generalized linear model, robust standard errors clustered by country in parentheses; outliers removed. *p<10%; **p<5%; ***p<1%	

Looking at the plots of the residuals calculated from the logit models of waivers reveals that the model fit is not particularly good; there is a cluster of

observations in both figure B.7 and figure B.8 in the top left quadrant, indicating many countries received waivers that, based on the values on the explanatory variables, were very unlikely to receive waivers.

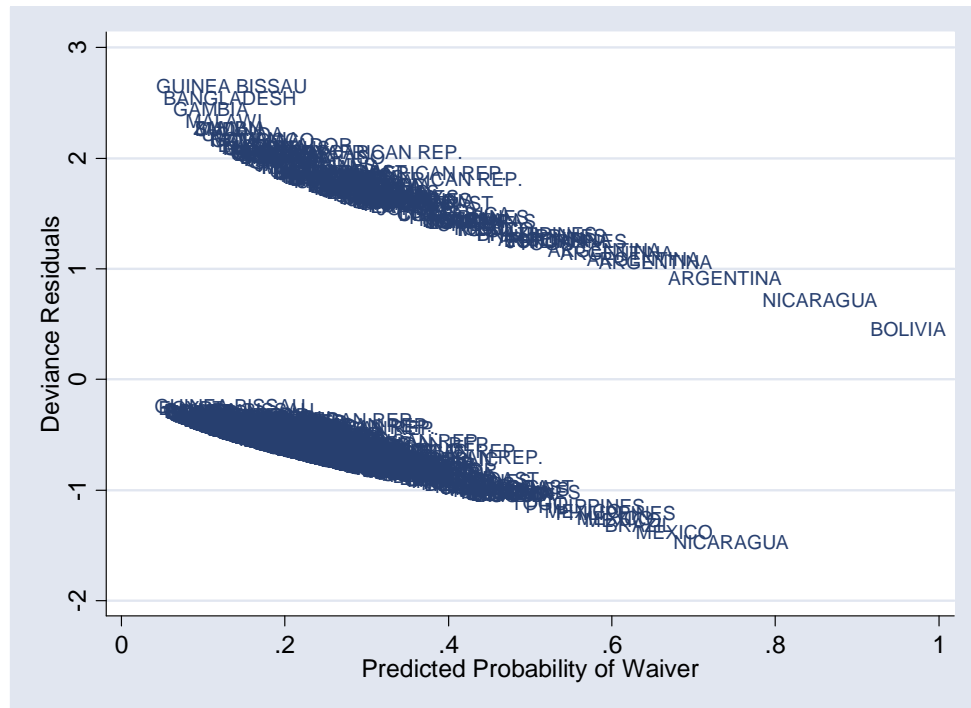


Figure B.7: Residuals versus Predicted Probability of a Waiver

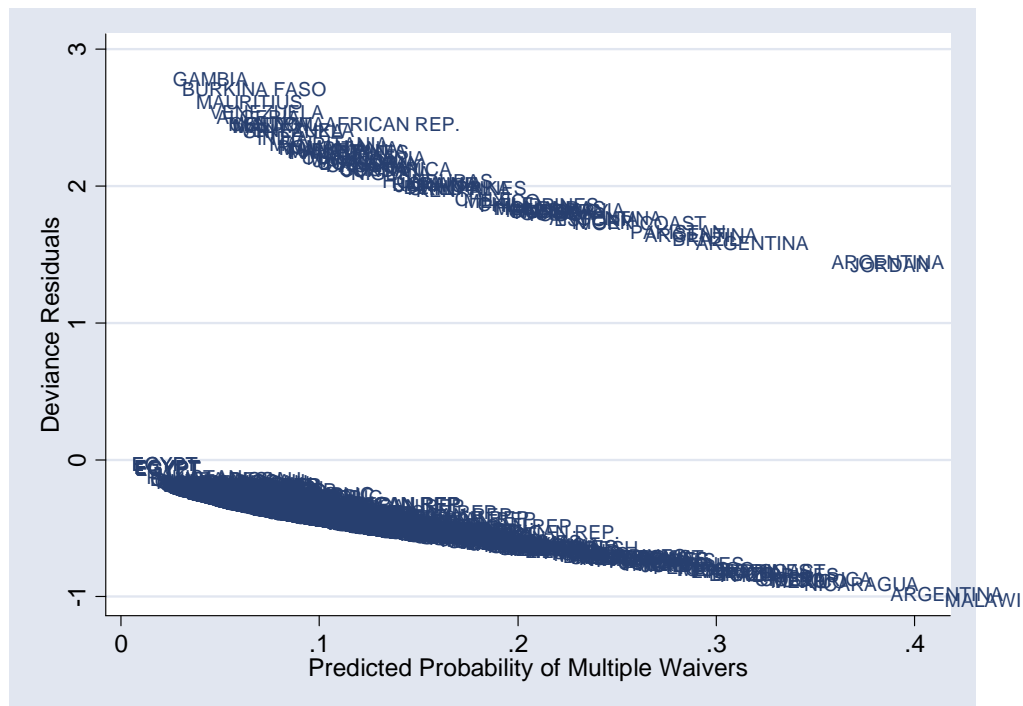


Figure B.8: Residuals versus Predicted Probability of Multiple Waivers

To see whether the results of the logit models of waivers reported in chapter 3 were unduly influenced by poorly predicted observations, I re-analyzed the data with the outliers – observations with residuals that are greater than 2 – omitted. The results of the logit models are reported in table B.3. The *proportion neoliberal* variable, which was by far the most important determinant of waivers in the comprehensive models described in the chapter, remains positive and significant. When the observations with large positive deviance residuals are removed, the relationship between my key explanatory variable and the presence of waivers is strengthened.

Taken together, the evidence presented in the appendix confirms that the key conclusion from the chapter – borrowing governments in which neoliberals have control over economic policymaking receive larger loans with fewer conditions and are more likely to receive waivers for missed performance criteria – are not affected by potentially influential individual observations.

Table B.3: Determinants of Waivers (1980-1997), Outliers Removed

<i>Independent variables</i>	Waiver issued (1) Logit	Multiple waivers (2) Logit
Use of IMF credit/quota <sub>t-1</sub>	5.237** (1.814)	3.394 (5.511)
U.S. Treasury Bill rate <sub>t-1</sub>	-0.236*** (0.067)	0.018 (0.119)
Reserves/debt <sub>t-1</sub>	0.004 (0.003)	0.018*** (0.005)
Debt/GNI <sub>t-1</sub>	-0.001 (0.002)	0.002 (0.003)
Log GDP <sub>t-1</sub>	0.156 (0.086)	0.385** (0.131)
GDP Per Capita Growth <sub>t-1</sub>	0.012 (0.025)	-0.097* (0.047)
Gov't Consumption/GDP <sub>t-1</sub>	0.072*** (0.022)	0.045 (0.052)
Inflation <sub>t-1</sub>	0.0003* (0.0002)	-0.0005 (0.0006)
Proportion Neoliberal	3.422*** (0.804)	7.228*** (1.239)
Election	-0.216 (0.339)	0.120 (0.566)
Left Government	-0.999*** (0.296)	-3.706*** (0.655)
Regime Type <sub>t-1</sub>	0.040 (0.022)	-0.011 (0.044)
Instability <sub>t-1</sub>	-0.413 (0.327)	-0.934 (0.792)
US Military Aid <sub>t-1</sub>	-1.49x10 <sup>-6</sup> (8.04x10 <sup>-7</sup> )	-3.61x10 <sup>-6</sup> * (1.69x10 <sup>-6</sup> )
UN Voting Affinity <sub>t-1</sub>	-0.157 (0.577)	0.715 (1.200)
Debt Rescheduling	0.890*** (0.278)	1.576** (0.539)
Constant	-6.607** (2.134)	-17.103*** (3.723)
No. of observations	669	661
Log likelihood	-227.897	-69.028
Wald $\chi^2$	137.21	190.91
Probability > $\chi^2$	0.0000	0.0000
Binary logit, robust standard errors clustered on country in parentheses, with three cubic splines (not reported); outliers omitted from the analysis. *p<10%; **p<5%; ***p<1%		

## APPENDIX C

### Sensitivity of Chapter 4 Results to Outliers

The presence of outliers – observations that are poorly predicted by the statistical model – can generate misleading parameter estimates in event history models. Following chapter 3 I examined plots of deviance residuals to diagnose outliers in the data on the treatment of borrowers by the IMF. I found that removing poorly predicted observations from the models did not affect the conclusions; in fact, the relationship between *proportion neoliberal* and the size of loans and the presence of waivers was strengthened once outliers were omitted.

Box-Steffensmeier and Jones make the following recommendation in their treatise on the use of event history models in social science: “plots of deviance residuals against the duration time or against the observation number can assist the researcher in identifying aberrant observations or clusters of observations.”<sup>1</sup> In keeping with the spirit of the robustness checks in the appendix that accompanied the results in chapter 3, and following the advice given by Box-Steffensmeier and Jones, I plot the smoothed deviance residuals calculated from the Cox models of political survival in tables 4.5 and 4.5 against the duration time. Figures C.1 and C.2 give the plots for finance ministers and central bank governors; the figures indicate that there are quite a few observations with large deviance residuals clustered around low values of the duration tracker (listed on the X-axis). The pattern of clustering indicates that Cox proportional hazards model underestimates the probability of failure for a subset of observations; that is, individuals with large deviance residuals should have survived longer than they actually did. A smaller cluster of observations in both plots are outliers on the low end – these policymakers survived longer than predicted by the model.

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<sup>1</sup> Box-Steffensmeier and Jones 2004: 130.



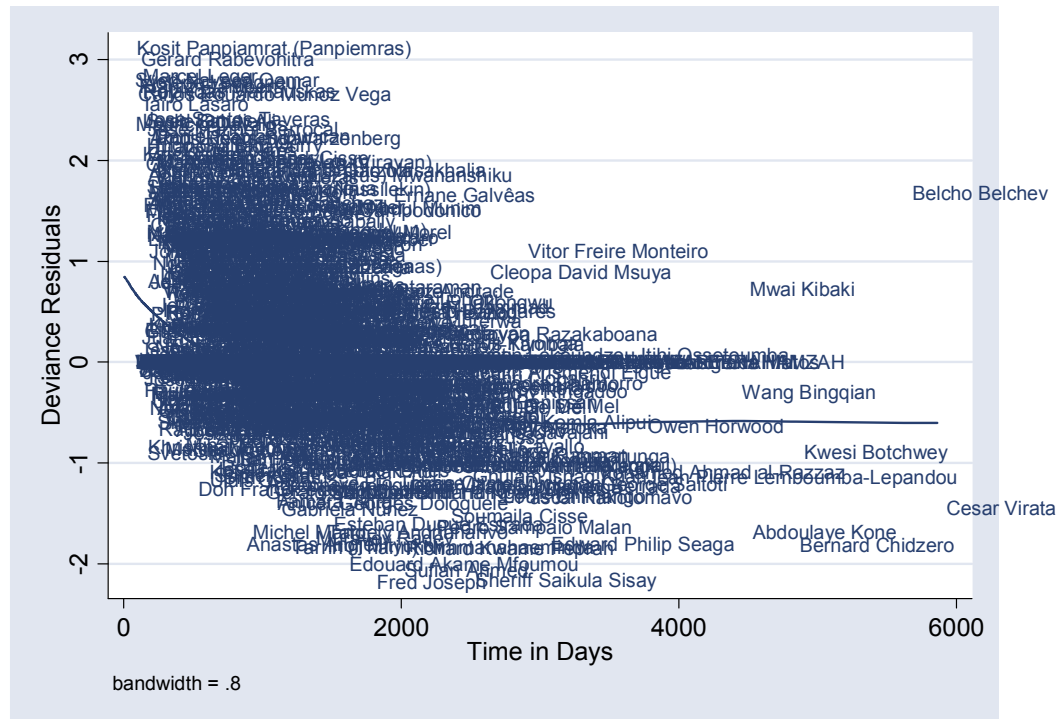


Figure C.1: Deviance Residuals versus Time in Office, Finance Ministers

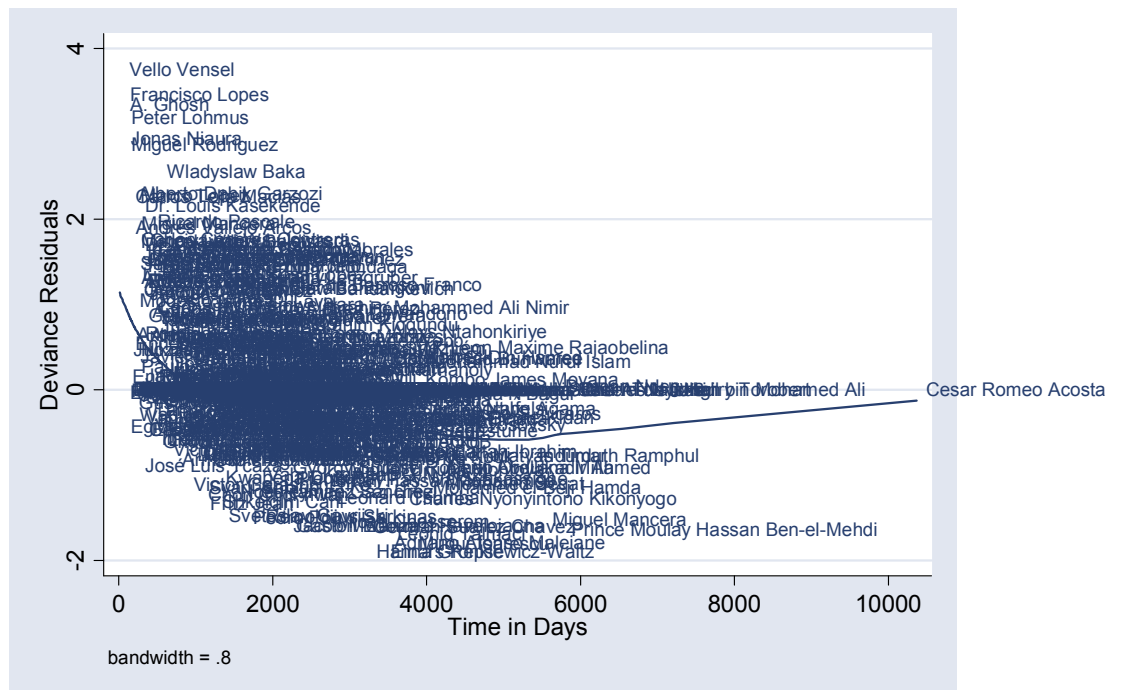


Figure C.2: Deviance Residuals versus Time in Office, Central Bankers

To assess the degree to which unusual observations are affecting the results obtained in the event history models of the survival of policymakers under IMF programs, I

removed all of the outlying observations, using the absolute value of 2 for the deviance residuals as the cutoff. Tables C.1 and C.2 present the results for the two types of economic officials.

Table C.1: Determinants of the Survival of Finance Ministers, Outliers Removed

<i>Covariates</i>	DV: Survival of Finance Ministers (in days)
Neoliberal	-0.401* (0.184)
Caretaker/Transition Govt.	2.728*** (0.339)
Inflation	22.446*** (2.063)
Inflation $\times$ $\ln(t)$	-3.611** (0.348)
GDP growth	-0.008 (0.011)
Currency Crisis	0.394* (0.201)
Mixed Regime	0.327* (0.167)
Presidential Democracy	0.481* (0.191)
Parliamentary Democracy	0.278 (0.224)
$\Delta$ Leader	1.345*** (0.126)
Number of observations	1223
Number of subjects	515
Number of failures	374
Time at risk	307619
Frailty parameter ( $\theta$ )	0.097, $p = 0.011$
Log-likelihood	-1734.076
Wald $\chi^2$	292.65
Probability $> \chi^2$	0.0000
Note: coefficients from Cox proportional hazard model with country-specific frailty terms sampled from a gamma distribution; standard errors in parentheses below coefficients. * $p < 10\%$ ; ** $p < 5\%$ ; *** $p < 1\%$	

Table C.2: Determinants of the Survival of Cent. Bank Governors, Outliers Removed

<i>Covariates</i>	DV: Survival of Cent. Bankers (in days)
Neoliberal	-0.543* (0.229)
Inflation	23.867*** (2.919)
Inflation $\times$ $\ln(t)$	-3.590*** (0.467)
GDP growth	-0.042* (0.018)
Currency Crisis	0.072 (0.322)
Mixed Regime	-0.190 (0.263)
Presidential Democracy	-0.375 (0.300)
Parliamentary Democracy	-0.168 (0.368)
$\Delta$ Leader	0.585** (0.204)
Number of observations	834
Number of subjects	283
Number of failures	180
Time at risk	239597
Frailty parameter ( $\theta$ )	0.543, $p = 0.000$
Log-likelihood	-790.666
Wald $\chi^2$	111.32
Probability $> \chi^2$	0.0000
Note: coefficients from Cox proportional hazard model with country-specific frailty terms sampled from a gamma distribution; standard errors in parentheses below coefficients. * $p < 10\%$ ; ** $p < 5\%$ ; *** $p < 1\%$	

Importantly, the conclusions I reached based on the survival analysis in chapter 4 do not hinge on the presence of a few unusual observations in the data. Neoliberal finance ministers and central bank governors under IMF programs last, on average, longer than non-neoliberals, when outliers are omitted from the analysis. The coefficients in tables C.2 and C.2 on the *neoliberal* variable are larger than those reported in the models in chapter 4 that include poorly predicted observations. In light

of the extreme variation in survival times, it is heartening that my results are not being driven by one or a few unusual policymakers.

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